Salary and Wage Administration

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First Edition
SECOND IMPRESSION

New York *London*

McGRAW-HILL BOOK COMPANY, INC.

1945

McGRAW-HILL

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SALARY AND WAGE ADMINISTRATION

PRINTED IN THE UNITED STATES OF AMERICA

THE MAPLE PRESS COMPANY, YORK, PA

PREFACE

Salary and wage administration is a field where no two companies operate on the same basis and where there are no standard patterns to follow. The subject, however, is one in which everyone engaged in business is deeply interested. Employees of all concerns are continually seeking more money, while management is looking for greater profit returns. Neither can succeed unless the salary and wage structure can stand the strain of changes in economic conditions.

The author is convinced that there are certain basic steps that all companies should take to improve their salary and wage programs. This conviction is the outgrowth of the author's experience with three companies: The B. F. Goodrich Co., Transcontinental and Western Air Lines, Inc., and the Lone Star Defense Corporation, a subsidiary of the B. F. Goodrich Co. The policies and procedures advocated in the following pages have all been tried and used successfully by various companies. They are, however, intended primarily as guideposts and should not be adopted by any company without an analysis to determine whether or not they are applicable. Needless to say, the conclusions outlined are solely those of the author and do not represent the views or the policies of any of the companies mentioned above.

The author is indebted to *American Business* for permission to reprint extracts from articles which were contributed to that magazine in 1944.

The author also gratefully acknowledges the editorial comments of R. H. Young and Kenneth Kessler, who reviewed the material.

Ralph W. Ells.

Kansas City,
September, 1945.

CONTENTS

INTRODUCTION

THE primary problem of salary and wage administration is to divide the weekly and monthly pay roll so that the majority of a company's employees believe the distribution to be fair and equitable. Unless a company can solve this problem, it cannot control either pay-roll costs or turnover. Too many companies with high absenteeism, high turnover, and excessive pay-roll expenses are prone to blame external conditions. In most cases external conditions merely accentuate a bad situation. High turnover and excessive pay-roll expense can almost invariably be traced to unsound and inconsistent salary and wage programs or policies. Contributing to the confusion surrounding these items is a lack of understanding on the part of many managerial employees of even the most simple and elementary concepts of salary and wage administration.

It is unfortunate, but apparently many executives do not realize that it is practically impossible to administer salaries and wages successfully unless a company first establishes a sound salary and wage structure. A salary and wage structure is related to the administration of salaries and wages just as golf clubs, golf balls, and golf shoes are related to a golf game. The average executive seeking relaxation in a golf game generally makes sure he has all the necessary equipment before starting to play. Yet the same executive administering salaries and wages often operates with only a few of the essential tools. Why? The answer is that many executives do not realize that certain programs are necessary in their organization.

This is surprising because in most companies the administration and control of salaries and wages have been for

years among top management's most perplexing problems. In addition, in many companies top management has been and is still constantly looking for better methods for controlling salaries and wages. It is for the purpose of aiding such members of top management that this book has been written. In the opinion of the author, before a company can administer salaries and wages successfully, it must establish a salary and wage structure consisting of four basic prerequisites or foundation stones. What these are and how they should be set up are outlined in detail in this book.

Closely related to the development of a sound salary and wage structure is the establishment of internally consistent miscellaneous pay-roll policies. Thirty years ago to control costs and turnover all that was needed was a sound salary and wage structure. This is not true today. During recent years, in large organizations employees have been granted many indirect benefits such as overtime pay, vacation pay, holiday pay, sick-leave pay, and group life insurance. In most companies the creation of pay-roll policies controlling these miscellaneous items has been a long-drawn-out process extending over many years. But once established, the administration has been so routine that top management has been able to delegate the functional control over these policies to subordinates. This is in direct contrast with the administration of salaries and wages. There, even after a sound program has been set up, it is still necessary for someone in authority to review salaries and wages periodically in order to maintain internal consistency. It is for this reason that the over-all problem of controlling pay-roll costs and turnover can be broken down into three distinct parts as follows:

1. The creation of a sound salary and wage structure.
2. The administration and control of salaries and wages.
3. The establishment of internally consistent pay-roll policies.

Although the establishment of internally consistent pay-

roll policies is closely related to the administration of salaries and wages, it is a subject that can be treated separately. It is, therefore, outside the scope of this book. The subject has been mentioned here primarily to prove that it is unrelated and to isolate the main problem, which is to outline a sound program for administering and controlling salaries and wages.

In this book the discussion and illustrations will be limited to outlining the basis for

1. The creation of a sound salary and wage structure.
2. The administration and control over salaries and wages.

It is the hope of the author that the programs and procedures advocated in the following chapters will aid materially those executives striving to find a solution to one of their most perplexing problems.

CHAPTER I

SALARY AND WAGE NORMALS

The four basic prerequisites or foundation stones of any salary and wage structure are

1. A normal salary or wage for each job classification.
2. Uniform salary- and wage-range schedules.
3. General job classifications for individual jobs similar in nature and content.
4. A method of rating jobs and classifying them to job levels so as to achieve internal consistency.

In many companies, despite years of experience in granting adjustments and administering salaries and wages, the majority of executives still have major personnel problems. Why? The answer is that most executives think in terms of salary and wage minimums and maximums rather than in terms of salary and wage "normals." Yet in order to compare job classifications, to control salaries and wages, and to ensure fair treatment to all employees, an executive must talk in terms of normals. The establishment of a normal salary or wage for each job classification is therefore the first basic requirement of an intelligent salary- and wage-administration program.

If all employees in each classification were of equal value, salary and wage administration would be a minor problem. Management would simply establish a single fixed normal rate for each job classification, and all employees would receive the same pay each week. Unfortunately from a wage-administration viewpoint, not all employees on the same job classification are worth the same each week in dollars and cents. Some individuals are lazy and do as little as possible. Others have unlimited energy and do far more than the average. Trained employees produce

more than untrained, intelligent more than unintelligent, and experienced more than inexperienced. Naturally, employees who do more work or who do better work expect to get paid more, and over a period of years this has become an accepted practice. In fact, in business it is an almost universal practice to recognize differences in performance and ability by paying different salaries or wages to employees on the same job classification. To accomplish this, companies have established salary and wage ranges for the majority of their classifications and have rewarded the more competent employees by paying them more than untrained beginners. Not only is such a procedure sound, but under proper administration it tends to keep employees striving to do a better job.

The use of salary and wage ranges to control salaries and wages is so firmly fixed in business today that it would be almost an impossibility to find a company not using them. Yet the majority of companies using ranges have been only partially successful in their attempts to control either payroll costs or turnover. In fact, an analysis of the pay-roll records of almost any firm over a 10-year period would show that the company had paid too much in times of depression and too little in times of prosperity.

If the experience of the more successful companies means anything, the best way to control pay-roll costs and turnover is to pay the average employee, regardless of experience and seniority, as much in periods of prosperity and depression as the average employee is paid in more normal times. It is a strange phenomenon, but companies that pay single fixed rates for classifications for which other companies have salary or wage ranges are sometimes more successful than companies with these ranges. The reason for this is simply that the majority of companies with salary or wage ranges fail to maintain an agreed-upon average. Most companies tend to maintain a lower than normal average in times of prosperity and a higher than normal average in periods of depression. The first tendency

accelerates turnover; the second increases costs unnecessarily. Surprisingly enough, few unions and few companies have yet realized that it is to their mutual advantage to maintain an agreed-upon average.

In general, adjustments to employees in companies using salary and wage ranges fall into two classes:

1. Seniority—where the adjustment is granted automatically based on length of service on the job or with the company.

2. Merit—where the adjustment is granted not automatically but for improved quantity and/or quality of work on a merit basis only.

Of the two methods, the merit-adjustment variety is the more popular. Since there are, however, a number of desirable features in a seniority program, it is perhaps well to review the two methods in detail.

Seniority programs are based on the theory that all employees progress at the same rate. In certain classifications, where the work is so routine that it is difficult to judge differences in performance, this theory is undoubtedly sound. If seniority rates are established so that (1) there is a fair relationship between the minimums and maximums and (2) the average employee receives a salary or wage equivalent to the normal for the classification, the seniority program then should be on a sound basis. Unfortunately, most seniority plans make no attempt whatsoever to pay the average employee whatever is normal for the job classification. Instead, seniority plans usually are based on conditions of a given moment, with no provision at all for economic changes.

Year	Stenographer's Salary per Month
1st	$100
2d	110
3d	120
4th	130
5th	140
6th	150

As a result, they tend to accelerate turnover in times of prosperity and to increase costs unnecessarily in times of depression. To illustrate, seniority scales similar to the table on page 3 can be found in common use.

Under a seniority program such as the one shown above for stenographers, a company employing 12 stenographers would have a varying salary expense over a cycle of years, as shown in Table 1.

TABLE 1.—COMPARISON OF SALARIES UNDER A SENIORITY PROGRAM

Stenographers with seniority of	January, 1940, normal			January, 1943, war prosperity			January, 195?, depression		
	No.	Salary	Total	No.	Salary	Total	No.	Salary	Total
Less than 1 year......	2	$100	$ 200	6	$100	$ 600	0	$100	$ 0
Less than 2 years.....	2	110	220	2	110	220	0	110	0
Less than 3 years.....	2	120	240	2	120	240	2	120	240
Less than 4 years.....	2	130	260	2	130	260	2	130	260
Less than 5 years.....	2	140	280	0	140	0	2	140	280
More than 5 years....	2	150	300	0	150	0	6	150	900
Totals............	12	....	$1,500	12	....	$1,320	12	....	$1,680
Average............	..	....	$ 125	..	....	$ 110	..	....	$ 140
Per cent of "normal".	..	....	100	..	....	88	..	....	112

Table 1 shows the tendency for companies under a rigid seniority program to pay less than they can afford in times of prosperity and more than is desirable in times of depression. This is the exact opposite of what the majority of companies would like to do. Yet this is exactly what happens under almost every seniority program. A seniority program, in prosperity or depression, always goes counter to the plans of management. Why? Because most seniority programs assume turnover will be constant. In the above illustration the program is based on the assumption that the annual turnover will be approximately $16\frac{2}{3}$ per cent; *i.e.*, two stenographers will quit or be promoted each year. As long as the turnover is near $16\frac{2}{3}$ per

cent, the seniority program is not only sound but is very easy to administer.

In depression times, however, few employees dare resign, for fear they will be unable to find a job elsewhere; so turnover drops. As a result, at a time when a company can ill afford to pay an excessive amount for any position, the natural tendency of a rigid seniority program is to raise job averages so high that a general reduction in salary and wage rates is almost mandatory.

On the other hand, in good times, people are restless and can find positions elsewhere that pay more money. Then, at a time when turnover is rising rapidly, unless increases are given more frequently, turnover will soon lower salary and wage levels. As a result, when a company can afford to pay even excessive amounts to competent employees, a rigid seniority program lowers job averages and eventually makes a general increase in salary and wage rates necessary. To illustrate, on Jan. 31, 1942, company *X* signed an agreement with a union, establishing a seniority program as follows:

First 6 months	$130
Second 6 months	145
Second year	155
Third year	165
Fourth year	175
Fifth year	185
Sixth year	195

The salary range mid-point was designated as the normal and was set at $162.50. On Jan. 31, 1942, when the agreement was signed and on Jan. 31, 1943, when the union requested a general $15 increase in rates, the average salary of union members was as follows:

Date	Average length of service	Average salary
Jan. 31, 1942	2 years 9 months	$162.50
Jan. 31, 1943	4 months	140.00
	Difference	$ 22.50

In the above example as of Jan. 31, 1943, if the union representatives had been smart, instead of asking for a $15 general increase in base rates—which could not be justified —they would have asked company *X* to maintain the normal average of $162.50. Such a request would not only have been reasonable but would have given the average employee $7.50 more than if the general increase of $15 had been approved.

On the other hand, if company *X* could have foreseen on Jan. 31, 1942, the effects of a rigid seniority program on the annual turnover rate, it would have insisted on the inclusion in the union agreement of a clause that would have permitted the company to maintain at all times an average of $162.50. Although the inclusion of such a clause probably could not have prevented the turnover rate from rising, it might have produced the following:

Date	Average length of service	Average salary
Jan. 31, 1942	2 years 9 months	$162.50
Jan. 31, 1943	1 year 4 months	162.50

If during the period from Jan. 31, 1942, to Jan. 31, 1943, the average length of service had only dropped from 2 years 9 months to 1 year 4 months, the savings in employment and training expense alone would have more than offset any additional pay-roll expense.

Merit programs as contrasted with seniority programs are based on the theory of rewarding individual employees for improved quantity and/or quality of work on a nonautomatic basis. Unfortunately, like seniority plans, few merit programs attempt to pay the average employee whatever is normal for the job classification. Instead, the granting of adjustments is generally left to the discretion of executives or department managers who base their decisions primarily on past practices rather than on present conditions. As a result, the majority of the various merit-

adjustment programs, like seniority programs, tend to accelerate turnover in times of prosperity and to increase costs unnecessarily in times of depression. To illustrate, merit salary ranges such as the following for company *Y* are in common use:

Job classification	Salary range	
	Minimum	Maximum
Stenographers	$100	$150
Junior accountants	140	210
Accountants	180	270

A layman unfamiliar with business operations would naturally assume that companies using salary ranges like the above would tend to maintain averages near their maximums in times of prosperity and vice versa in times of depression. In actual practice, owing to fluctuations in the annual turnover rate, the tendency in most companies is just the reverse. That is, the tendency is to maintain a higher salary and wage average in periods of depression than in periods of prosperity. This is so contrary to economic principles that it sounds ridiculous to assume that any executive would permit it in his organization. Yet this is exactly what has happened over the past 20 years in almost every large corporation. At the time the various salary and wage ranges were established years ago, the emphasis was 100 per cent on minimums and maximums, with no thought given to what was normal. Over a period of years the number of employees on a particular job classification varied considerably, and for this reason any comparison of the total paid for a certain type of work for any two calendar years was worthless. Recently, however, there has been a tendency in the more progressive firms to establish normal salaries and wages for various classifications and to compare average salaries with these normals periodically. The comparisons almost invariably have amazed the executives in

charge of salary and wage administration. One company that analyzed its averages over a 5-year period discovered that it had paid the exact opposite of what it had intended to pay. This company's averages for stenographers, junior accountants, and accountants for two different periods in the 5-year span are shown in Table 2.

TABLE 2.—COMPARISON OF SALARY AVERAGES—COMPANY *Y*

Date	Stenographers		Junior accountants		Accountants	
	Number of employees	Average salary	Number of employees	Average salary	Number of employees	Average salary
Jan. 1, 1940.....	112	$124	71	$173	24	$227
Jan. 1, 1945. .	131	110	86	148	30	210

This table brings out the tendency for salary and wage levels to drop when turnover is high and adjustments are insufficient. In most companies, the majority of new employees are started at the minimum salary for their job classification or at some salary or wage close to the minimum. As a result, if turnover is high, averages can drop very rapidly. Unless a company has established normal salaries and normal wages for each and every job classification within its organization, it may inadvertently soon be paying less than it intended to pay. To prevent this, all companies should establish normals for their various job classifications and should periodically compare these normals with "actual" salaries and wages to make sure they are paying approximately the averages that they feel they should be paying. To accomplish this, all that is necessary is a very simple tabulation. To illustrate, if company *Y*, in the above example, decided that the mid-points[1] of a $100 to $150 range for stenographers, of a $140 to $210 range for junior accountants, and a $180 to $270 range for account-

[1] While it is not necessary to set the mid-point of a range as the normal, most companies using uniform salary and wage schedules do so.

ants represented normals that the company should be maintaining, then

1. A normal salary for a stenographer would be \$125.
2. A normal salary for a junior accountant would be \$175.
3. A normal salary for an accountant would be \$225.

As of Jan. 1, 1945, the relationship of actual to normal would be as shown in Table 3.

TABLE 3.—COMPARISON OF SALARY AVERAGES, COMPANY *Y*, JAN. 1, 1945

	Number of employees, *a*	Normal salary, *b*	Actual average salary, *c*	Total normal salaries, *a* × *b*	Total actual salaries, *a* × *c*
Job classification:					
Stenographers	131	\$125	\$110	\$16,375	\$14,410
Junior accountants	86	175	148	15,050	12,728
Accountants	30	225	210	6,750	6,300
Totals	247	....	....	\$38,175	\$33,438
Amount actual below normal	...	....	....	....	\$ 4,737
Per cent actual below normal	...	....	....	....	12.4

The computation in Table 3 brings out the tendency for salary and wage levels to drop when turnover is high and adjustments are withheld. As shown in the table, on Jan. 1, 1945, company *Y* was paying \$4,737 a month less on these three job classifications than was normal. This did not in all probability represent any net saving to company *Y*. Offsetting the lower pay-roll costs were higher employment expenses, decreased efficiency, and higher training expenses.

CHAPTER II

SALARY AND WAGE THEORIES

In periods of prosperity there is a tendency for the turnover rate to rise. This is only natural, and unless it increases excessively, there should be no reason to take any special measures to counteract it. In many companies, however, the turnover rate does not rise in a normal manner. Instead, it increases by leaps and bounds and quickly reaches a point where it impairs the efficiency of the company's operation.

This raises the question as to what a company can do to prevent turnover from rising excessively during periods of prosperity. The answer is by granting salary and wage increases periodically to various employees. While other factors such as improved working conditions, better supervision, and more adequate training tend to keep turnover from rising too rapidly in a tightening labor market, they have but little influence, in the long run, on the average employee. The only major factor in the last analysis is the salary or wage paid the average individual. Nobody has yet found a better cure for an employee's grievances than $10 or $20 more in the monthly pay check. Well-paid employees, in general, tend to forgive management for poor working conditions and for poor supervision more quickly than employees who feel that they are underpaid.

How high a value employees place on the remuneration factor as compared with other factors is best illustrated by the following:

In 1942 two air lines operating a transoceanic service for the government found it necessary to put maintenance and service shops in a small town deep in the Maine woods. One air line allowed its employees a $6 a day living allowance

while assigned to this location; the other allowed $1.25. The first had practically no turnover among its thirty-odd employees, while the second lost on the average one a day. In an effort to combat this high turnover, the second air line provided free movies and improved living conditions, but to no avail. The employees still left almost as fast as they came. Exit interviews with resigning employees over a 3-month period failed to disclose a single instance where the employee was dissatisfied with his wages. Illness in the family, living conditions, urgent personal affairs, sinus trouble, and many other reasons were given for having to leave this isolated community. Finally the company in desperation changed the living allowance to $6 a day. Immediately, turnover dropped to practically nothing. The mechanic who had sinus trouble had a miraculous recovery; the dispatcher with urgent personal business decided it could wait; the girl clerk with the sick mother found she was not needed at home; and so it went.

On a more moderate scale, the same analogy applies to all business enterprises. The average employee, except in depression, is always on the fence, and it does not take much to push him off and start him moving along. For this reason, in periods of prosperity it is almost mandatory for a company to maintain a salary or wage that the average employee thinks is fair; otherwise turnover will be excessive.

This raises the question, "What is a fair salary or wage?" Before it is possible to answer this question intelligently, it is necessary to review the two opposing theories for controlling costs and turnover; *viz.*,

1. The single-fixed-rate theory.
2. The salary- or wage-range theory.

Under the single-fixed-rate theory, management establishes a rate of pay for a job classification according to what the job is worth to the company, and all employees on a particular job receive the same rate of pay regardless of experience and ability.

Under the salary- or wage-range theory, manage-

ment establishes a range for a job classification and pays employees assigned to that classification according to what each is worth to the company. According to this method, theoretically at least, employees are not assigned to a classification unless the salary or wage they are worth to the company falls within the range. Furthermore, according to this theory it should be the responsibility of management to place employees on classifications that are within their capabilities.

The basic difference between the single-fixed-rate and the salary- or wage-range theories is that under the first, employees are paid what management feels the job is worth; whereas under the second, employees are paid what management feels each as an individual is worth.

There are certain decided advantages and disadvantages under each theory. The salary- or wage-range theory, while involving administration problems not found under the single-fixed-rate theory, has a flexibility that single fixed rates do not have. A company operating under this theory can raise or lower its average salaries and wages according to conditions and according to the ability of the applicants available for particular types of work. To illustrate, company *A* on Jan. 1, 1944, established a wage range for a particular job of 90 cents to $1.10 an hour. At that time the company decided that the average worker on this job classification was worth $1 an hour, and they paid employees accordingly. On July 1, 1944, the company decided that the average worker was worth $1.05, so it granted increases and raised the average to $1.05. On Jan. 1, 1945, it decided that the average worker was only worth 95 cents, so it withheld adjustments and normal turnover soon reduced the average to 95 cents. All these changes were made without excessive turnover and without creating any labor problem. The company during this period paid wages that employees believed to be fair; consequently there was no trouble.

The one big objection to operating under salary and wage

ranges is that, in order to be effective, it is necessary for supervisors and department managers to devote considerable time to the administration of the salary and wage program. This is in direct contrast to the operation under single-fixed-rate plans. The single-fixed-rate theory, therefore, has a decided advantage from an administrative angle. All a company has to do under it is to decide what a job classification is worth as of a given moment and then pay everyone assigned to that job classification the same rate. While such a program is to a great extent inflexible, from an administrative viewpoint it is so simple that many supervisors and department managers prefer it.

Unfortunately in business the value of job classifications changes frequently. The job worth \$1 an hour yesterday, is worth \$1.05 today and will be worth 95 cents tomorrow. Management today is reluctant to increase the base rate from \$1 to \$1.05 an hour because it knows that tomorrow it will be almost an impossibility to decrease the rate to 95 cents. This tends toward inflexibility. The average company using single rates seldom pays what the job is worth today. It pays what the job was worth yesterday. As a result, companies using single fixed rates tend to underpay their employees in times of prosperity and to overpay them in times of depression. For this reason, during periods of prosperity employees on single fixed rates frequently become dissatisfied with their salaries and wages. This dissatisfaction leads to excessive turnover or to what is often worse, labor disturbances, strikes, and walkouts.

Excessive turnover and labor problems force management to spend more time on administrative details. The minutes saved by not having to administer salaries and wages because the company had been operating with single fixed rates is suddenly offset by hours and days that have to be devoted to a major personnel problem. It is for this reason that the single-fixed-rate theory is basically unsound. The establishment of single fixed rates solves the present problem temporarily only. It postpones administrative

detail six months or a year or two, but it guarantees that it will have to be handled again at some future date.

Another valid objection to the single-fixed-rate theory is that it tends to force the better workers rather than the poorer ones to resign. To illustrate, in companies operating on the single-fixed-rate theory an individual can earn, depending on the job to which he is assigned, 60, 70, 80, 90 cents, etc., per hour. This is fine as long as it is unnecessary to assign an employee to a job paying less than what he has been earning. But conditions change rapidly in business. The 90-cent-an-hour job of yesterday is eliminated today. There are no other 90-cent jobs, so workers are placed on 80-cent jobs. Naturally they resent it, and the better ones quit. From a morale viewpoint, the reduction in wages is bad. The workers cannot help feeling that if management cannot find a job for them at 90 cents an hour the company, not the individuals, should take the loss. In addition, from an economic viewpoint the reduction in wages is unsound, because a company tends to lose its more competent employees. Furthermore, it is a debatable question as to whether the 90-cent employees are not still worth 90 cents an hour to the company when assigned to an 80-cent job. If they are, then the theory of paying employees what the job is worth is fundamentally unsound. A few companies have recently come to this conclusion. They now feel that a company which pays single fixed rates for any job classification cannot help having excessive costs and turnover. While this is difficult to prove, the experience of a Southwestern company in 1944 illustrates why there is some justification in arriving at this conclusion. To illustrate:

In October, 1944, the company was paying laborers 50 cents an hour for unloading freight cars. On a particular type of unloading, involving steel cases, it took six men 8 hours to unload one freight car. The cost per car was

$$6 \text{ men} \times 8 \text{ hours} \times 50 \text{ cents an hour} = \$24 \text{ per car}$$

During the latter part of October, owing to a shortage of laborers at 50 cents an hour, the company was forced to use some 70 cent an hour employees to unload cars. Under an emergency agreement, the rate of pay for these employees was left at 70 cents an hour. The 70 cent an hour employees worked approximately two weeks, at the end of which time they were transferred back to their regular assignments, as the company did not feel it could afford to pay 70 cents an hour for that type of work. Since these employees were from a different division, the time was kept separately and a routine report on costs revealed to a surprised management that it was cheaper to unload steel cases with 70-cent laborers than it was with 50-cent laborers. The cost per car with the 70-cent employees was

$$6 \text{ men} \times 5 \text{ hours} \times 70 \text{ cents an hour} = \$21 \text{ per car}$$

In investigating to determine why it was cheaper to pay 70 cents an hour than it was to pay 50 cents an hour, the company found that the absenteeism and turnover rates on these two classes of employees were as follows:

	50-cent laborer	70-cent laborer
Monthly absentee rate, per cent.........	17.8	5.5
Monthly turnover rate, per cent.........	33.2	8.9

This meant that the company was spending considerable money in employment expenses each month to recruit and hire employees who were so inefficient that the work could be done cheaper by other employees on a higher base pay. The company decided it should not be doing this and made several experiments to determine what it should be paying. The tests were very simple. The company merely took groups of men at various rates of pay and asked them to unload cars. The results were as follows:

TABLE 4

Group	Pay per hour, cents	Number of men	Number of hours	Cost per car
A	50	6	8	$24.00
B	55	6	6½	21.45
C	60	6	5½	19.80
D	65	6	5	19.50
E	70	6	5	21.00
F	80	6	4½	21.50
G	90	6	4½	24.30

Based on this study of costs, the company concluded that it should be paying 60 to 65 cents an hour for unloading cars, rather than 50 cents.

The above comparison of costs illustrates how difficult it is to establish a fair rate of pay or a true normal for a job classification. It also brings out a fundamental truth often overlooked by executives; *viz.*, the employment of men of greater ability and skill than appears necessary may result in lower net costs to a company. Too many executives look at the direct cost only when setting wage rates and give very little thought to the efficiency of the worker, the absentee rate, the turnover rate, employment expenses, training expenses, and other related costs of salary and wage administration. In many companies, these items run into considerable money and must be taken into consideration when establishing salary and wage ranges.

If a salary and wage administration program is to achieve its ultimate goal, it must, over a period of years, control to a reasonable extent not only pay-roll costs but all related expenses as well. For this reason, a company might well find it advisable to maintain a higher average for various job classifications at certain times than at others. Whenever it is cheaper to give the average employee a 5 cent an hour increase than to look for replacements, management would be foolish not to grant the increase. Or, if paying on the average 5 cents more an hour attracts a better type of

worker and results in lower net costs to the company, management should maintain the higher average. On the other hand, if it is cheaper to hire replacements than it is to grant increases and raise the wage level, management would be foolish to grant the increases. The test in both instances is which action will result in lower net over-all expense to the company over a period of years. In all companies, there should be two breaking points for each job classification:

1. A point above which it is uneconomical to raise salaries and wages because it is cheaper to hire replacements than to grant increases.
2. A point below which it is uneconomical to allow salaries and wages to drop because it is cheaper to grant increases than to hire replacements and put up with the resulting inefficiency.

Naturally these breaking points will vary considerably from depression to prosperity, and a company must constantly be reviewing a number of apparently unrelated factors in order to keep the company's over-all expenses within reasonable limits. The principal factors to be considered are

1. Direct pay-roll expense.
2. The efficiency of the workers at various rates.
3. Absenteeism and the inefficiency resulting therefrom.
4. Turnover and the inefficiency resulting therefrom.
5. Employment and training expenses.

If management is to operate on an economical basis, it must analyze reports on the above five factors at periodic intervals. In addition, before making any changes in the basic structure, management must consider all factors and the rates of pay of all job classifications at the same time. From an over-all company viewpoint, it is a mistake to maintain a high average in one job classification if it increases turnover and causes discontent among employees on other job classifications to such an extent that the company as a whole is worse off. For this reason, a company

should never change the average pay for one job classification without first checking to see what effect the new average would have on the rest of the organization.

The average salary or wage a company should pay varies from day to day and from month to month according to the type of employees available and according to changing external conditions. Since in most companies it is not practical to raise or lower basic salary or wage rates to meet changing conditions, companies should establish salary or wage ranges for all jobs. In other words, the only sound basis for a salary and wage administration program is one based on ranges for all job classifications in the organization. The establishment of a range for each job classification is, therefore, the second basic requirement for an intelligent program. Once a company has this, it can periodically analyze its statistical reports on costs, turnover, etc., and determine the average it should be maintaining on each job classification. This average, which changes from month to month, is in reality the true normal.

In making analyses and comparisons, it is generally advisable to have a standard with which current figures can be compared. To handle this the majority of companies using the controls advocated in this book have adopted the policy of designating the mid-point of the salary or wage range as the normal. While this mid-point normal is not a true normal, it does provide a basis for comparisons, thus permitting the development of a sound method for controlling salaries and wages.

CHAPTER III

CONTROLLING SALARIES AND WAGES

If there is one word that has contributed more than anything else to the confusion that surrounds the administration and control of salaries and wages, it is the word "minimum." During recent years, business and government have talked continually in terms of minimums rather than normals. As a result, many individuals today believe that the way to control wages and salaries is to establish fair minimums. This is fundamentally wrong. Wages and salaries can be controlled successfully by one method only; *viz.*,

1. By establishing a normal salary or wage for each job classification.
2. By periodically comparing
   a. The total of the normal salaries and wages of all employees with
   b. The total of the actual salaries and wages of the same employees (exclusive of overtime and bonuses).
3. By maintaining a desired relationship between normal and actual salaries and wages, by either
   a. Periodically granting adjustments or
   b. Periodically withholding adjustments.

If management is to control successfully those portions of pay-roll costs and turnover that can be controlled, then management must periodically review the relationship of actual to normal for all job classifications, along the lines of the tabulation of Table 3. In Table 3 actual salaries are 12.4 per cent below normal. This is too great a differential. Generally, a percentage below normal of more than 4 per

cent indicates a bad situation. It means that adjustments have been withheld and that turnover has been excessive. To counteract it, management, in situations similar to the illustration in Table 3, should treat the difference between actual and normal as an account payable. Unless there are some extenuating circumstances, management should grant adjustments totaling somewhere near the amount below normal to deserving employees.

When computations such as shown in Table 3 are presented to the management of any firm for the first time, the reaction invariably is, "We can see how granting adjustments will raise actual salaries to normal, but suppose it is the other way around and 'actual' salaries are above 'normal.' What do you do?" The answer is "turnover." Turnover will automatically take care of the situation within a reasonable time provided adjustments are withheld from all but the most deserving employees. One company that used this method of control during 1942 and 1943 found that with a 28 per cent annual turnover the percentage of actual to normal dropped 1.6 per cent a month.

To control pay-roll costs and turnover, companies need not establish elaborate adjustment programs. They should simply watch the monthly relationship of actual to normal. By so doing, management can anticipate and prevent many resignations in prosperous times and can prevent salaries and wage costs from increasing unreasonably during depressions. To illustrate, a report similar to the monthly report, shown in Table 5, for company *X* from September through January would allow management to determine easily the total amount of adjustments it would be willing to grant during the month of February.

In Table 5, turnover, as of Jan. 31, has outrun adjustments, and generous increases should be granted immediately. Otherwise, too many other employees of company *X* will soon become dissatisfied with their salaries and wages and resign to go elsewhere. Whenever the percentage of actual to normal drops, it literally waves a red flag at

management and says you better give some adjustments to your employees or you are going to lose more of them. Conversely, when the percentage of actual to normal does not drop, the red flag shows up again. This time it says you better stop giving adjustments to all but the most deserving employees, or your salary and wage costs are going to get out of line.

TABLE 5.—COMPARISON OF ACTUAL AND NORMAL SALARIES—COMPANY *X*

Month ending	Total monthly normal salaries	Total monthly actual salaries	Per cent actual to normal	Per cent monthly turnover rate
September	$253,180	$254,200	100.4	2.1
October	256,420	255,630	99.7	2.4
November	258,600	250,910	97.0	3.0
December	257,400	240,150	93.3	5.1
January	256,800	234,100	91.2	6.6

Many companies make the mistake of looking at the number of adjustments and the amount of the adjustments that they grant in any one year rather than at the relationship of actual salaries to normal salaries. In fact, the management of many firms has gone on record that it does not favor granting adjustments to employees more than once a year or that it will not allow the total adjustments to employees in any one year to exceed an average of 5 cents per hour per employee. Statements like these merely prove that management does not understand the reason behind the granting of adjustments. Executives who establish such rules apparently have not realized that there are two opposing factors constantly at work trying to raise or to lower salary and wage levels:

1. Adjustments which tend to raise actual salaries and wages above normal salaries and wages.
2. Turnover which tends to lower actual salaries and wages below normal salaries and wages.

If the relationship of actual salaries and wages to normal

salaries and wages is to remain at a desired constant, the dollar amount of salary and wage adjustments must vary in direct ratio to the annual turnover. For this reason, any limitation on the over-all total of adjustments, such as 5 cents per hour, is impractical. If a company has no turnover, $1,000 in adjustments might well be excessive. On the other hand, a company with a 100 per cent turnover might find half a million dollars worth of adjustments insufficient to keep its salary and wage levels from dropping.

To illustrate, a company had four employees to whom it paid a total of $1,000 a month during 1942. It decided this was normal so there was no reason to grant increases. Since nobody resigned in 1942, it gave no increases whatsoever. The pay roll on Dec. 31, 1941, and 1942 is shown in Table 6.

TABLE 6

Employee	Salary Dec. 31, 1941	Dollar amount of salary adjustments, year 1942	Salary Dec. 31, 1942
A	$ 400	0	$ 400
B	300	0	300
C	200	0	200
D	100	0	100
Total...........	$1,000	0	$1,000

On Dec. 31, employee *A* resigned; *B*, *C*, and *D* were promoted and each given a $25 increase; employee *E* was hired. On Mar. 31, *B*, *C*, *D*, and *E* were each given a $25 merit adjustment. The pay roll during this period was as given in Table 7.

In Table 7, despite three promotion increases totaling $75 and four merit increases totaling $100, actual salaries on Mar. 31 were still $150 below actual salaries of Dec. 31. This illustrates the natural tendency of turnover to lower salary and wage levels. The greater the turnover, the greater is the need for a more liberal adjustment policy. In this illustration there were only four employees, and the

difference between each was exaggerated beyond the usual difference found in industry. The principle, however, does not change, regardless of whether there is a difference of $5 between employees or a difference of $100. In fact, if the four employees above were multiplied by several thousand, the answer would be what happens to the majority of companies with salary and wage range programs during periods of prosperity.

TABLE 7

Employee	Salary, Dec. 31, 1942	Promotion adjustment, Jan. 1, 1943	Salary, Jan. 1, 1943	Merit adjustment, Mar. 31, 1943	Salary, Mar. 31, 1943
A	$ 400				
B	300	$25	$325	$ 25	$350
C	200	25	225	25	250
D	100	25	125	25	150
E	......	..	75	25	100
Totals.........	$1,000	$75	$750	$100	$850

On the other hand if nobody resigned and a company continued to grant increases over a period of years, payroll costs would increase considerably, as shown in Table 8.

TABLE 8

Employee	Salary, Dec. 31 1941	Merit adjustment, year 1942	Salary, Dec. 31, 1942	Merit adjustment, year 1943	Salary, Dec. 31, 1943
A	$ 400	$ 50	$ 450	$ 50	$ 500
B	300	25	325	25	350
C	200	20	220	20	240
D	100	10	110	15	125
Totals.........	$1,000	$105	$1,105	$110	$1,215

Multiply this by several thousand employees, and the answer is what happens to the majority of companies

with inadequate salary and wage programs during periods of depression.

Apparently, the very thing that takes place during depressions is what most executives believe is happening to their pay-roll costs during periods of prosperity, which explains their reluctance to grant necessary adjustments during prosperity until forced into it by union pressure or excessive turnover.

It is unfortunate, but few in managerial positions today realize that ordinary routine merit or seniority increases are granted primarily to maintain existing salary and wage levels, not to raise them. Why is this? The answer is that many executives make no distinction between the following three types of adjustments:

1. Reclassification or promotion adjustments which are granted to compensate employees for increased responsibilities.
2. General increases which raise salary and wage levels.
3. Routine merit or seniority adjustments which are given to maintain salary and wage levels.

As a result of this lack of understanding of adjustments, executives of many companies turn down requests for routine adjustments that are necessary to maintain normals and to keep turnover from rising. These executives are afraid that the increases are of the general type that will raise salary and wage levels. Unfortunately, they do not have facts and figures to substantiate this belief, so they adopt a do-nothing policy. Eventually, this do-nothing policy lowers salary and wage levels, increases turnover, and forces management into the very thing management was trying to avoid: a general increase. For this reason, the management of all companies should periodically review the relationship of actual to normal on all job classifications. Unless management makes such reviews, it may find itself some day in a position in which the only way to correct the situation is through the medium of a general increase or decrease. Since general increases and decreases

tend to upset the whole salary and wage structure, it behooves management to anticipate and prevent situations like this from developing.

The failure of executives to grant enough increases to maintain fair salary and wage levels is best illustrated by the experience of an industrial engineer who was called in by the president of a large middle-western company in 1943 to find out why a certain division of this company was not operating efficiently. Among the recommendations this engineer made at the conclusion of his survey was that $3,000 worth of monthly adjustments should be granted immediately to the 200 salaried employees in this division. According to the figures compiled by the industrial engineer, actual salaries in this division were 10 per cent below normal. The president took exception to this proposal. "Why," he said, "if I approved $3,000 for this division I would have to approve $30,000 for the rest of the company."

The industrial engineer's answer to this was, "Mr. President, perhaps you should do that very thing. It might save the company considerable money. I know it sounds ridiculous to say that by spending $30,000 or more a month the company will save $100,000 or more a month, but that is exactly what will happen. In this division, which I have just analyzed, the morale among the salaried employees could not be worse. In my opinion, if the company fails to grant around $3,000 of monthly adjustments at this time, the turnover rate in this division for the next year will average 8 to 10 per cent a month. In addition, the morale will continue at a low ebb and there will be little incentive for employees to try to do a better job. The resulting inefficiency will cost this company hundreds of thousands of dollars. If you grant this $3,000 today and review salaries periodically from a liberal viewpoint from now on, I think you can keep the turnover rate below 3 per cent a month. If you can keep the turnover rate below 3 per cent, you will save in efficiency, employment, and

training expenses ten times what you will spend on salary adjustments."

In seeking better ways to control salaries and wages, many executives have failed to correlate two things. (1) During periods of depression, the number of employees on the rolls is generally less than the number on the rolls in times of prosperity. (2) The average employee on the rolls during periods of depression is more competent than the average employee performing like tasks in periods of prosperity. For this reason, in periods of depression, a company gets more for its money. Consequently, it can afford to maintain a higher average than would be possible if employees were only on a par with employees who were on the rolls in prosperous times.

Conversely, during periods of prosperity, employees are less capable and more inefficient. If workers are less efficient, a company gets less for its money. Theoretically a company should pay less. In actual business practice, however, a company cannot afford to do this. In fact, frequently it has to pay more. Why? The answer is the law of supply and demand. Other companies making money and needing employees can afford to make attractive offers. But if other companies are making money, then so should the first. It can also afford to pay more. This means that the only question a company has to decide in periods of prosperity is whether it is cheaper to grant adjustments and retain present employees or whether it is cheaper to withhold adjustments and hire and train replacements.

The decision as to whether or not adjustments should be granted or withheld should always be a top-management decision. This function should never be delegated to department managers or supervisors. If the granting of salary and wage increases is left to department managers, some will pay too much and others will pay too little, depending on their natures. Unfortunately, in many companies top management has unwittingly delegated this important phase of the company's operations to depart-

ment managers. The word "unwittingly" was used deliberately in the preceding sentence because many executives who think they control salaries and wages actually have no control over them. These executives operate under the theory that no increase is necessary unless a department manager can prove it necessary. They sit back and wait developments. A few of the more competent department managers produce the necessary evidence, and their employees receive increases. The rest do nothing. Eventually, certain employees become dissatisfied and either quit or create a labor disturbance. Then these executives blame the department managers for not foreseeing the excessive turnover and the personnel problem. Few of these executives would ever admit it was their fault for not forcing department managers to grant certain necessary increases several months before. Yet in almost every case no one is to blame for excessive turnover, strikes, and walkouts except top management. How can any one else be responsible when the only group that knows the over-all picture and can make intelligent forecasts is the top management group?

As a result of this failure of top management to control salaries and wages properly, in many companies the average rates of pay vary considerably between departments.

TABLE 9

Department	Monthly salaries		Per cent actual to normal	Average seniority	
	Normal	Actual		Company	Position
A	$19,400	$22,800	118.0	21 years	17 years
B	30,100	27,210	90.4	6 months	4 months

How widely these averages can vary is best illustrated by a comparison between two departments of a large manufacturing company. This company on Apr. 1, 1942, established a budgetary control based on the relationship

of actual to normal. The first review of salaries under the new program disclosed the extremes seen in Table 9.

In this company, it was common gossip that there was stagnation in department *A*, where no major changes in policies and procedures had been made in over 10 years. In addition, everyone knew that there was inefficiency in department *B*, so the figures were no surprise. To correct this situation, management on the quarterly reviews of Apr. 1, July 1, and Oct. 1 of 1942 approved generous increases for employees of department *B* and withheld approval for the majority of the proposed increases for employees of department *A*. In addition, management transferred some of the more capable older employees out of department *A* and gave them assignments involving increased responsibilities in other departments. These two actions resulted in a better internal relationship as of October 1st as follows:

TABLE 10

Department	Monthly salaries		Per cent actual to normal	Average seniority	
	Normal	Actual		Company	Position
A	$19,800	$21,000	106.1	10 years	6 years
B	29,800	29,050	97.5	1 year	9 months

In the above illustration the relationship of 97.5 per cent in department *B* and the 106.1 per cent in department *A* does not represent an unusual variation. Frequently in business, the average employee in one department may be considerably above the company average, while the average employee in another department may be considerably below the company average. When establishing budgets for each department, top management must take this into consideration and allow a reasonable differential. From an internally consistent viewpoint, it is generally advisable to limit the differentials between departments and also between job classifications to a maximum of 10 per

cent. If a department manager feels that he needs more than a 10 per cent differential over the lowest departmental average, he probably has too many above-average employees in his department. Top management should correct that situation by transferring some of them to other departments.

CHAPTER IV

MERIT SALARY AND WAGE SCHEDULES

The average salaried or hourly wage employee is a peculiar individual. Except in depression periods, whenever he feels his salary or wage is out of line with other employees within the organization, he resigns individually and goes elsewhere. To keep the average worker from resigning, management needs only to maintain a salary or wage level that the average employee thinks is fair, *i.e.*, fair as compared with others in the same or in similar work. To force this same average individual to resign, management needs only to maintain a salary or wage level somewhat below what the average employee believes to be fair. The problem of administering salaries and wages is, therefore, primarily one of determining what the salary or wage level should be for the average employee in each classification and then either maintaining that level or not, as management sees fit.

Over a period of years, most companies have attempted to control pay-roll costs and turnover by paying the market average for all the various classifications within their organizations. Yet these same companies have had excessive turnover and unnecessarily high pay-roll expenses. Why? The answer is that their rates internally have been inconsistent. Comparatively speaking, few employees resign because a company's rates are below the market average. The majority of the resignations for salary or wage reasons can almost invariably be traced to some real or fancied internal discrimination between the resigning employee's rate and the salaries or wages paid other employees within

the organization. For this reason, when establishing a salary and wage administration program, it is more important to provide for a uniform internal relationship than to attempt to meet the salaries and wages paid by competitors for individual jobs. A company that attempts to maintain external consistency by paying individual market averages for positions is making a mistake, because in most companies employees tend to compare their salaries and wages with the salaries and wages paid to other employees within the organization rather than with the salaries and wages paid to employees in similar capacities in other firms.

Human nature is such that even under the fairest and most impartial salary and wage program there will always be some disgruntled employees. For this reason, salary and wage administration primarily should be designed to take care of the average employee, and it should be recognized there will probably still be some dissatisfied individuals.

A point frequently overlooked by executives and also by government officials is that there can be wage and salary increases without any change in base rates. All a company has to do is lower its specifications for its job classifications. This is true even if a company is operating under single fixed rates. Unfortunately, the lowering of job specifications for single rated jobs almost invariably raises the wages of the newer employees only and causes dissatisfaction among the older ones. Few companies are aware of the true cause of this unrest among the older employees because generally wage increases by changing specifications are made at the same time base rates are changed. As a result, the increase in base rate through changing specifitions is forgotten. It is there nevertheless.

The following comparisons of job specifications for company *X* for January, 1941 and 1944 illustrate the truth of this statement.

JOB SPECIFICATIONS FOR MECHANICS—COMPANY *X*

January, 1941—Base Rate $1.00 an Hour	January, 1944—Base Rate $1.15 an Hour
2 years of trade school	6 months of trade school
2 years of apprentice experience	6 months of apprentice experience

JOB SPECIFICATIONS FOR SENIOR MECHANICS—COMPANY *X*

January, 1941—Base Rate $1.10 an Hour	January, 1944—Base Rate $1.25 an Hour
2 years of trade school	1 year of trade school
2 years of apprentice experience	6 months of apprentice experience
2 years mechanic experience	6 months of mechanic experience

In the above illustration, company *X* from January, 1941, to January, 1944, increased the base pay for all mechanics and senior mechanics 15 cents an hour. In addition, it granted an extra 10 cents an hour increase to the majority of the employees in mechanical classifications. But certain employees classified as senior mechanics did not receive this extra 10 cents an hour increase. Why? Because these employees had qualified for the rating of senior mechanic prior to January, 1941, under the old specifications. These older employees not only resented the failure of the company to give them an extra 10 cents an hour, but they also resented being classified with men of less ability and experience. They felt they were better qualified than the newer men and that they should receive more money. Undoubtedly they were right. The company was at fault for not recognizing this and for not creating a new job classification such as that of master mechanic for employees with higher qualifications. By establishing such a classification at a rate of 10 cents an hour above the senior mechanic's rate, the company could have anticipated the complaints of the older senior mechanics and forestalled them through promotions to the master mechanic's rating.

The above illustration explains why turnover rises and the number of labor problems increase rapidly in periods of prosperity. All companies, because of lack of qualified applicants for open jobs, tend to lower their job specifica-

tions. Unless this drop in job specifications is offset by corresponding adjustments to the more experienced employees already on the rolls, a company is asking for trouble. Yet few companies realize this. How inconsistent the majority of companies are in this respect is best illustrated by a comparison of the salaries paid by a large manufacturing company in 1942. This company in order to attract technical college graduates increased its starting rate for men with a B.S. degree from $150 to $175 a month without reviewing the salaries of employees with B.S. degrees already on the rolls. It was not till some of the older employees tried to resign that the company discovered that it had employees with B.S. degrees on its rolls with a year's experience with the company earning $160 a month.

To keep the majority of a company's employees satisfied, management must provide the more competent and the more experienced employees an opportunity to earn proportionately more money on the same job than those employees whose performance is on a lower level. This can be accomplished only by establishing uniform rate ranges. In the majority of large organizations, in order to administer salaries and wages successfully, these rate ranges should be divided into six separate schedules as follows:

A-1. A merit salary schedule.
   2. A merit wage schedule.
B-1. A seniority salary schedule.
   2. A seniority wage schedule.
C-1. An incentive salary schedule.
   2. An incentive wage schedule.

Of these six schedules, the two merit ones are the most important and should be established first. This is a comparatively easy task. In most companies, to handle salary and wage-adjustment problems for job classifications under merit schedules, it is desirable to have ranges with a 50 per cent spread between the minimums and the maximums. A 50 per cent differential gives management

flexibility and allows for all reasonable differences in ability between two employees on the same job classification. Typical examples of merit salary and wage schedules where there is a 50 per cent differential between the minimums and the maximums are shown in Tables 11 and 12.

TABLE 11.—MERIT SALARY RANGE SCHEDULE*

Job level	Training period minimum	Merit salary range			Special merit maximum
		Minimum	Normal	Maximum	
1	$ 70	$ 80	$ 87.50	$ 95	$105
2	80	90	100.00	110	120
3	90	100	112.50	125	135
4	100	110	125.00	140	150
5	110	120	137.50	155	165
6	125	135	155.00	175	185†
7	140	155	175.00	195	210
8	160	175	200.00	225	240
9	180	200	225.00	250	270
10	200	220	250.00	280	300
11	220	240	275.00	310	330
12	240	265	300.00	335	360
13	260	285	325.00	365	390
14	280	310	350.00	390	420
15	300	330	375.00	420	450
16	350	385	437.50	490	525
17	400	440	500.00	560	600

* The salaries in this range schedule are on a monthly basis.
† Adjusted to next lowest $5.

In Tables 11 and 12 different steps in the ranges have been designated by the terms

1. Training period minimum.
2. Merit range minimum.
3. Merit range maximum.
4. Special merit maximum.

The reason for doing this was twofold. (1) While executives should think and talk in terms of normals, the employment department and the job-evaluation unit should be thinking and talking in terms of minimums and training period minimums. (2) The salary and wage

TABLE 12.—MERIT WAGE RANGE SCHEDULE*

Job level	Training period minimum	Merit wage range			Special merit maximum
		Minimum	Normal or mid point	Maximum	
1	*	$ .40	$ .40	$ .45	*
2	*	.40	.45	.50	*
3	*	.45	.50	.55	*
4	*	.50	.55	.60	*
5	*	.55	.60	.65	*
6	*	.60	.65	.70	*
7	*	.65	.70	.75	*
8	$ .60	.70	.75	.80	$ .90
9	.64	.74	.80	.86	.96
10	.68	.78	.85	.92	1.02
11	.72	.82	.90	.98	1.08
12	.76	.86	.95	1.04	1.14
13	.80	.90	1.00	1.10	1.20
14	.84	.95	1.05	1.15	1.26
15	.88	1.00	1.10	1.20	1.32
16	.92	1.05	1.15	1.25	1.38
17	.96	1.10	1.20	1.30	1.44
18	1.00	1.15	1.25	1.35	1.50
19	1.04	1.20	1.30	1.40	1.56
20	1.08	1.25	1.35	1.45	1.62
21	1.12	1.30	1.40	1.50	1.68
22	1.16	1.35	1.45	1.55	1.74
23	1.20	1.40	1.50	1.60	1.80

* The wages in this range schedule are on an hourly basis.

committee or the salary and wage administrator frequently should be talking in terms of merit range maximums and special merit maximums. For this reason, many companies using uniform salary and wage schedules break the 50 per cent spread between the minimums and maximums into three parts as follows:

1. Probationary or training period range.
2. Merit range.
3. Special merit range.

The dividing of the ranges into three parts has a decided advantage from a salary and wage administrative angle in that it permits a company to set up policies for employees

in training, for average employees, and for outstanding employees; it also permits a company to deal with each group separately. This breakdown simplifies salary and wage administration considerably.

Generally, the probationary, the merit, and the special subranges each should be approximately one-third of the over-all range, although this is not necessary. There are, in fact, two schools of thought on this point. One school maintains that the ranges have to be uniform percentage-wise at all levels, and the other maintains that the merit ranges above a certain level should always be the same fixed amount. Table 11 is based on the first, Table 12 on the second.

From a practical point of view, it is immaterial which type of salary and wage schedule a company adopts. Both schedules have the same training period minimums and the same special merit maximums. This means that a company can have internal consistency under either or both. Since both permit internal consistency, it is possible to administer salaries and wages successfully under either or variations of either.

Unfortunately, all companies do not have uniform salary and wage schedules. In fact, in many companies it is only by accident that classifications with the same minimums have the same maximums. To illustrate, salary ranges such as those given in Table 13 can be found in almost any company.

TABLE 13

Job classification	Salary range	
	Minimum	Maximum
Telephone operators	$100	$110
Clerks	100	125
Stenographers	100	135
Receptionists	100	140
Laboratory assistants	100	150

The same is true of wage ranges, which are shown in Table 14.

TABLE 14

Job classification	Wage range	
	Minimum	Maximum
Mechanics	$1.00	$1.10
Painters	1.00	1.15
Carpenters	1.00	1.20
Electricians	1.00	1.40

Salary and wage ranges such as those shown in Tables 13 and 14 violate one of the primary rules of salary and wage administration; *viz.*, "All employees must have the same proportionate opportunity to earn more money." For this reason it is almost impossible to administer salaries and wages sucessfully under such salary and wage ranges because even though all employees were paid fair salaries a majority of them still might feel that they had not been given the same opportunity as others who were on a wider salary or wage range.

The majority of the salary and wage ranges in business today prove that salaries and wages are the result of what the traffic will bear, rather than the result of an intelligent approach to the problem.

Apparently, many executives believe that they are saving a company money by paying as little as possible to get the job done. These executives look at the direct costs only. They forget that there are indirect costs and problems, such as

1. Excessive turnover,
2. High employment and training expenses,
3. High absenteeism, and
4. Decreased efficiency,

which often more than offset any saving in direct pay-roll expense.

In many companies, executives have never considered establishing a few uniform ranges where all maximums are a fixed percentage of their minimums. Instead, these executives have approved the setting up of a great number of unrelated ranges in which the maximums are 105 to 200 per cent of their minimums. This complicates salary and wage administration, causes discontent, and tends to increase turnover.

If companies with nonuniform merit salary and wage range schedules are to obtain the greatest possible benefit from their salary and wage administration program, they must eventually discard these inconsistent schedules and set up uniform rate ranges similar to the ones illustrated in Tables 11 and 12.

In Table 12, rates for three steps only are shown for the first seven job levels. Employees on these job levels are generally unskilled, and they have difficulty understanding discrepancies in pay between themselves and other workers. For this reason, if a company wishes to administer wages from a merit viewpoint on these lower job levels, it is better from an administrative angle to limit the number of different rates to a maximum of three and to designate each rate by a different title. To illustrate, if a company has a job classification for apprentice mechanics which it feels is worth about 65 cents an hour, then in order to avoid any misunderstanding between apprentice mechanics receiving different rates of pay it should designate

1. Apprentice mechanics earning 60 cents an hour as apprentice mechanics, grade III.
2. Apprentice mechanics earning 65 cents an hour as apprentice mechanics, grade II.
3. Apprentice mechanics earning 70 cents an hour as apprentice mechanics, grade I.

Such an arrangement would be a subterfuge as all apprentice mechanics would perform approximately the same type of work.

Under such a program, instead of granting merit adjust-

ments within a range, a company would grant reclassification adjustments within a range. By speeding up or holding back reclassifications, a company could maintain any desired average. Reclassification adjustments of this type are in reality nothing but merit adjustments.

In Table 12, on job levels 8 and above the employees should be semiskilled or skilled workers. Over a period of years, the majority of employees on job levels as high as these have accepted differences in pay based on merit. This has not been a universal acceptance, and in many companies even on higher skilled job classifications, unions have insisted on single fixed rates rather than merit ranges. Whenever that has happened in companies operating under a uniform merit wage schedule, the practice has been to use the subterfuge outlined above for unskilled workers and to try to convince the union that the job classifications proposed were in order. Such approaches have not been too successful, however, because on many job classifications the assignments are so routine it is practically impossible for management to evaluate individual performances through merit adjustments. For this reason, on such classifications it is better from an administrative viewpoint to grant adjustments on an incentive- or seniority-plan basis rather than on a merit basis. To handle such adjustments, companies need seniority-range schedules and incentive-range schedules similar to the merit-range schedules of Tables 11 and 12.

If a company is to be consistent internally, the various range schedules must have the same minimums, the same normals, and the same maximums at all job levels. In other words, the schedules must be interchangeable. If all types of range schedules have the same minimums and the same maximums, it is a comparatively easy task for a company to change a classification from a merit basis to a seniority or incentive basis, and vice versa. Furthermore, under all types of range schedules, by watching the relationship of actual to normal a company can control costs and

turnover. In other words, salaries and wages can always be controlled under any program as long as employees compete against each other instead of against a fixed standard. Whenever merit, seniority, or incentive plans fail, it is because the company has forgotten the first, last, and only rule of salary and wage administration; *viz.*, "Salaries and wages can be controlled . . . only by paying the average employee on each classification whatever wage or salary is normal for that classification."

CHAPTER V

SENIORITY SCHEDULES

All employees in a company are entitled to fair treatment. The fact that some are under a merit plan, others under a seniority plan, and still others under an incentive program should be immaterial. For this reason, a company must prepare all its various range schedules from the same basic mold.

In most companies, the merit-range schedules are the most important and serve as the basic mold for all others. The conversion from a merit range to a seniority range is very simple. There are two possibilities. A company can use the merit range part only, or it can establish a schedule from the training period minimum to the special merit maximum. Most companies prefer the full range and establish the steps of their seniority salary range as illustrated in Table 15.

TABLE 15.—BASIC SENIORITY RATES FOR SALARIED EMPLOYEES

Job level	Basic seniority rates for salaried employees					
	0	1	2	3	4	5
1	$ 70	$ 80	$ 90	$100	$105	
2	80	90	100	110	120	
3	90	100	110	120	130	$135
4	100	110	120	130	140	150
5	110	120	130	140	150	165
6	125	135	145	155	170	185

The minimums and maximums of Table 15 are the same as those in Table 11. This means that employees under merit programs and under seniority programs have

the same opportunity to earn more money. Wage-seniority schedules can be established easily in the same manner.

In Table 15 steps for the first six levels only are shown. This is in accordance with a more or less standard business practice of granting seniority adjustments on the lower job levels only. If a company wishes to grant seniority adjustments on job level 7 and above, the schedule can be extended by following the same basic pattern.

In most companies it is impractical to change seniority programs more often than once every 6 months. A company, however, can review and change seniority programs once each 6 months and still control costs and turnover. Under such a procedure, management would review salary and wage averages and turnover rates and then announce a new seniority program—good for 6 months only. To illustrate, company *X* on Jan. 1, 1942, had a job classification for junior clerks in a range of $80 to $120 a month. Under the basic seniority rates for salaried employees as shown in Table 15, the seniority step-ups were as follows:

Minimum or starting salary	$ 80
Salary after first increase	90
Salary after second increase	100
Salary after third increase	110
Salary after fourth increase, or maximum	120

A review of salaries and turnover on Jan. 1, 1942, disclosed that company *X*'s average for junior clerks was $99.80, as compared with a normal of $100; and the turnover rate was 16 per cent, compared with an over-all company average for salaried employees of 24 per cent.

On the basis of these statistics, the company decided to establish a seniority program for the next 6 months as follows:

First year	$ 80
2d year	90
3d year	100
4th year	110
5th year	120

This seniority program was announced to all junior clerks, and during the next 6 months junior clerks who were entitled to seniority adjustments received them. On July 1, 1942, the company again reviewed the salaries and the turnover rate for junior clerks. It discovered that the seniority program had not been liberal enough. The turnover rate had risen to 27 per cent, and the average salary had dropped to $94.20. To counteract this trend, the company decided to liberalize its program for junior clerks as follows:

First 6 months	$ 80
Second 6 months	90
2d year	100
3d year	110
4th year	120

The above program was placed into operation, but on Jan. 1, 1943, the company found it necessary to revise it again. The various changes that the company made over a 3-year period are shown in Table 16.

TABLE 16.—SENIORITY PROGRAMS FOR JUNIOR CLERKS, JAN. 1, 1942, TO JAN. 1, 1945

Past 3 months' turnover on annual basis	Average salary	As of	Seniority program approved for next 6 months				
			$80	$90	$100	$110	$120
16%	$ 99.80	Jan. 1, 1942	1st year	2d year	3d year	4th year	5th year
27	94.20	July 1, 1942	1st 6 months	2d 6 months	2d year	3d year	4th year
36	92.70	Jan. 1, 1943	1st 3 months	2d 3 months	Next 6 months	2d year	3d year
34	93.30	July 1, 1943	1st 3 months	2d 3 months	3d 3 months	4th 3 months	2d year
17	101.40	Jan. 1, 1944	1st 3 months	2d 3 months	Next 6 months	2d year	3d year
24	98.40	July 1, 1944	1st 3 months	Next 6 months	Next 6 months	Next 9 months	3d year
18	100.90	Jan. 1, 1945	1st 6 months	2d 6 months	2d year	3d year	4th year

Table 16 brings out how difficult it is to forecast turnover in periods of prosperity. As shown in Table 16, company

X was forced to change its seniority program once each 6 months over a 3-year period. The reverse is generally true in periods of depression. When employees are leaving at a low uniform rate, it is possible for a company to establish a seniority program that will not have to be changed for several years.

For job classifications under a seniority program, the administration of salaries and wages should follow the general pattern of adjustments under a merit program. That is, a company operating under a seniority schedule should accelerate seniority adjustments when turnover rates are high and should postpone seniority adjustments when turnover rates are low. This method permits a company to control its pay-roll costs and, to a certain extent, its turnover rate. In addition, it allows the average employee in depression and prosperity to earn approximately the same amount in base pay exclusive of overtime and bonuses. It also permits employees with proportionately more or less seniority to earn a related amount.

Under this kind of arrangement, employees compete against each other. The length of service of the average employee varies, but the average employee always receives the same amount of money. In Table 16 the length of service of the average junior clerk on Jan. 1 and July 1 of each year should be as shown in Table 17.

TABLE 17.—AVERAGE LENGTH OF SERVICE, JUNIOR CLERKS, JAN. 1, 1942, TO JAN. 1, 1945

Date	Average employee	
	Length of service	Salary
Jan. 1, 1942	3 years	$100
July 1, 1942	2 years	100
Jan. 1, 1943	6 months	100
July 1, 1943	6 months	100
Jan. 1, 1944	6 months	100
July 1, 1944	9 months	100
Jan. 1, 1945	1 year	100

Many will argue that such a program is unsound because a junior clerk with 6 months' seniority on July 1, 1943, is not as capable as the junior clerk with 3 years, seniority on Jan. 1, 1942, and therefore should be paid less. Theoretically, this is true. In actual practice, for purely selfish reasons it is almost mandatory for a company to pay the average employee the same in both instances. If a company does not, turnover will rise to such an extent that it will cost the company far more in inefficiency and employment and training expenses than would be saved by paying less.

It should be noted that under a seniority program such as advocated above salaries or wages are never reduced. It is only adjustments to new qualifiers that are postponed because of the revision of the seniority program. From a salary and wage administration viewpoint, such a rule is very desirable under both merit and seniority programs. Nothing lowers morale more quickly than decreases in compensation, and they should be avoided if at all possible. Failing to grant other employees increases accomplishes the same result with a minimum of friction between management and labor.

CHAPTER VI

INCENTIVE SCHEDULES

A popular variation of a merit program is an incentive wage and salary plan. Plans of this kind can be found in all types of industry. They are based on the theory of rewarding individuals according to the quantity and/or quality of work produced. The majority of them, however, are economically unsound because the programs relate the earnings of each worker to some standard rather than to the earnings of all other workers. Whenever an incentive program is tied to a standard, the weekly pay of each worker can vary

1. Not only as the quantity and/or quality of work varies
2. But also as conditions change,

and any time a worker's pay can vary owing to conditions not under his control, the plan will eventually fail to control costs and turnover.

In most companies, at the time an incentive program is first set up the wage rates and the standards are established according to conditions as of that moment. If these conditions change, as they frequently do in business, then the rates or the standards must be changed also. Otherwise workers would not receive a fair return for their work. This necessitates a review of rates and standards and, if the company is unionized, negotiations with the union. To handle the company's side of it, management generally establishes an industrial engineering department.

What happens? A rate and a standard are set for a particular job. Two days later an employee discovers a better way to perform an operation, and the standard or the basic rate has to be changed. A month later another employee

suggests an improvement, and the standard or the rate has to be changed again. Since man is constantly finding new short cuts, the worker is always a little bit ahead of the industrial engineer trying to set fair standards and fair base rates. Because workers are human, they soon realize that if they earn too much the base rates or the standards will be changed, so they agree among themselves to restrict production in order to retain the present standards and the present base rates. This procedure naturally lowers the productivity of labor and removes the original incentive to produce more.

The same analogy applies to all other forms of incentive rewards. A salesman is given a sales quota and/or a profit quota. Through no fault of his, prosperity comes to his community and he receives a reward far out of proportion to his efforts. The next year his quota is raised, depression hits his community, and though he works twice as hard as he did the year before, his net earnings at the end of the year are considerably less.

Experience such as the above with piece-rate operations and salesmen's commissions have caused many companies to discard incentive plans altogether. This probably was a mistake because the theory of an incentive plan is sound —it is only the application in many companies that is unsound. Whenever an incentive plan fails, it is because the company has forgotten the first, last, and only rule of salary and wage administration; *viz.*, "Salaries and wages can be controlled . . . only by paying the average employee on each classification whatever salary or wage is 'normal' for that classification."

Before establishing an incentive plan, a company should establish an incentive schedule. To ensure internal consistency, this schedule should have the same minimums, the same normals, and the same maximums as the company's merit and seniority schedules. A schedule that meets these requirements for wage earners is shown in Table 18.

In Table 18 certain steps in the wage range have been designated by percentages. These percentages represent the maximum amount an employee's performance can vary from the average performance before he is entitled to a different base rate. The percentages shown in Table 18 can be changed to conform to the deviations from normal on various types of work, but the basic schedule should always be the same.

TABLE 18.—BASIC INCENTIVE SCHEDULE FOR HOURLY EMPLOYEES

Job level	Per cent below normal					Normal	Per cent above normal				
	18 Min.	14	10	6	2		2	6	10	14	18 Max.
5	.48	.50	.53	.55	.58	.60	.62	.65	.67	.70	.72
6	.52	.55	.57	.60	.62	.65	.68	.70	.73	.75	.78
7	.56	.59	.62	.64	.67	.70	.73	.76	.78	.81	.84
8	.60	.63	.66	.69	.72	.75	.78	.81	.84	.87	.90
9	.64	.67	.70	.74	.77	.80	.83	.86	.90	.93	.96
10	.68	.71	.75	.78	.82	.85	.88	.92	.95	.99	1.02
11	.72	.76	.79	.83	.86	.90	.94	.97	1.01	1.04	1.08
12	.76	.80	.84	.87	.91	.95	.99	1.03	1.06	1.10	1.14
13	.80	.84	.88	.92	.96	1.00	1.04	1.08	1.12	1.16	1.20
14	.84	.88	.92	.97	1.01	1.05	1.09	1.13	1.18	1.22	1.26
15	.88	.92	.97	1.01	1.06	1.10	1.14	1.19	1.23	1.28	1.32
16	.92	.97	1.01	1.06	1.10	1.15	1.20	1.24	1.29	1.33	1.38
17	.96	1.01	1.06	1.10	1.15	1.20	1.25	1.30	1.34	1.39	1.44
18	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.35	1.40	1.45	1.50
19	1.04	1.09	1.14	1.20	1.25	1.30	1.35	1.40	1.46	1.51	1.56
20	1.08	1.13	1.19	1.24	1.30	1.35	1.40	1.46	1.51	1.57	1.62
21	1.12	1.18	1.23	1.29	1.34	1.40	1.45	1.51	1.57	1.62	1.68
22	1.16	1.22	1.28	1.33	1.39	1.45	1.51	1.57	1.62	1.68	1.74
23	1.20	1.26	1.32	1.38	1.44	1.50	1.56	1.62	1.68	1.74	1.80

Under this sort of program, the average employee on an hourly basis would be determined each week by dividing the total production for the week by the number of employees. This means that an employee would not know what his hourly rate of pay would be until the man-hour standard was determined for the week. Or if employees objected to not knowing their rate of pay each week, the company could

let the man-hour performance this week determine the rate of pay for next week.

If a company were using a wage-incentive schedule such as shown in Table 18 and established a normal wage rate of $1 an hour for a particular job, the job would be classified job level 13. Under the incentive schedule, the rate of pay for employees on this classification would vary from 80 cents to $1.20 an hour depending on what percentage of the total production the individual produced. To illustrate, the rate of pay of two employees might vary as shown in Table 19.

TABLE 19

Week ending	Company average	Employee *A*			Employee *B*		
		Units produced	Per cent above normal	Base pay	Units produced	Per cent below normal	Base pay
Dec. 9	83	93	12.0	1.12	70	15.7	.84
Dec. 16	100	107	7.0	1.08	80	20.0	.80
Dec. 23	199	223	11.9	1.12	182	8.5	.92

In Table 19, the earnings of employees *A* and *B* are related to the earnings of other workers on the same job classification rather than to any standard. This is contrary to the accepted doctrine of the majority of incentive plans now used by various companies. In most companies, standards of performance are established and the earnings of individual workers vary according to the relationship of their weekly performance with plant standards. This is poor psychology. The fundamental basis for average human endeavor is the desire to do better than someone else. Few individuals strive for success by trying to exceed some standard.

A sound incentive program is comparable to a golf tournament. There is a grand prize for the winner, and there are lesser prizes for the other participants. There is also a man-hour standard in business and a par in golf.

But the man-hour standard in business and the par in golf should never be used as the basis for determining the prizes to be awarded. All things are relative. Standards are necessary for both employees and golfers in that they are goals toward which to strive. There their value ends. In golf the winner does not necessarily have to better par to obtain the grand prize. All he has to do is to beat everyone else competing against him in the tournament. In business that is all an individual worker should have to do. The prize on each job classification should be the maximum of the range for that classification. The worker or workers who perform the best should be entitled to this maximum, while others whose performance is on a lower level should receive lesser amounts. Workers should never be deprived of this maximum merely because they failed to shoot par while beating all other workers.

Business could take a lesson from competitive sports. In all games involving competition, the players are always primarily trying to do better than their opponents. In the records it is immaterial whether a team wins by 1 point or 50 points. By the same token, workers under an incentive program should merely be striving to do a better job than others on the same level. If they do, then they should receive the offered prize the same as the winners in fields of sport.

Under an incentive schedule such as shown in Table 18, a normal salary can be established for a classification based on the importance of the job as compared with other job classifications. This normal need not be changed until all other normals are changed. If a change in procedure doubles the average number of units that employees can produce, it is unnecessary to change the base rates because employees are competing against each other rather than against a standard. This method has two decided advantages; *viz.*,

1. It permits changes to be made in man-hour standards without negotiations with employees.

2. It permits industrial engineers to concentrate on finding better, easier, and quicker ways to do particular jobs and thus increase the productivity of labor. This puts the industrial engineers on the employees' side of the fence where they belong rather than on management's side where they are at the present time.

Labor in many companies is suspicious of the intentions of industrial engineers. Yet industrial engineers who can find better ways to produce a given commodity are in reality true friends of labor. In the long run, unless labor produces more in the same length of time, the real wages of labor cannot rise. So when labor accuses industrial engineers of inaugurating speed-ups and layoffs and when labor deliberately restricts production under incentive plans, it is saying it does not think much of the programs or the policies of management.

The failure of the majority of incentive programs to provide true incentives can be attributed to two things. (1) The average worker is afraid that if he becomes too proficient the standards will be changed. (2) The average worker is afraid of layoffs. These two fears tend to make the average worker hold back. This raises the question as to what management can do to eliminate these two deterrents from the mind of the average worker. The answer is by establishing

1. An incentive program based on competition between employees rather than competition against some standard, and
2. A policy of no layoffs.

The experience of company *X* in this respect is worth reviewing. Prior to July, 1944, this company had operated in one department under a piece-rate incentive plan. Despite the efforts of the industrial engineers, the average performance was considerably below what the company believed to be fair standards. In desperation, the company finally decided to discard standards as a basis of paying

workers and merely to relate the earnings of the workers to other workers. The results are shown in Table 20.

TABLE 20.—COMPARISON OF BASE PAY UNDER AN INCENTIVE PLAN

Date	Number of man-hours per unit produced		Weekly earnings of various workers			Number of employees in department
	Plant standard	Actual	Poorest	Average	Best	
July, 1944	.40	.51	$41.60	$52.00	$62.40	1,470
August, 1944	.40	.48	41.60	52.00	62.40	1,350
September, 1944	.40	.42	41.60	52.00	62.40	1,276
October, 1944	.40	.40	41.60	52.00	62.40	1,126
November, 1944	.40	.39	41.60	52.00	62.40	1,068
December, 1944	.37	.35	41.60	52.00	62.40	1,012
January, 1945	.34	.31	41.60	52.00	62.40	959
February, 1945	.30	.26	41.60	52.00	62.40	838
March, 1945	.26	.21	41.60	52.00	62.40	750

Table 20 shows how company *X* over a 9 months' period was able to reduce the number of employees by approximately 50 per cent and at the same time to increase its production. During this period, no employees were laid off. The reduction in numbers was accomplished solely by not hiring replacements for those employees who resigned. Such a program is appreciated by the loyal employees who remain on the rolls. It gives them a sense of security and encourages them to produce more.

To prevent slowdowns and restrictions of output, it is almost mandatory for all companies to refrain from laying off workers except as a last resort. Except in depressions, the monthly turnover rate is high enough in most companies to take care of all routine reductions in personnel without any general layoffs provided management will intelligently review its manpower requirements periodically. A reduction in personnel by shutting off new hires and allowing turnover to bring the number of employees down to a desired level is a painless process. It improves

employee morale and allows a company to build up a strong permanent organization. Since most layoffs involve but 2 to 6 weeks' replacement hirings, most reductions in personnel can be handled by merely not hiring any replacements for a designated period of time prior to an anticipated layoff. This is so simple and fundamental, it would seem that all companies would follow it. Yet many companies operate under the exact opposite program. In many companies, transfers from one department to another are practically forbidden. A department will operate at full speed until the last day and then lay off 500 or 1,000 employees. This often happens at a time when the employment department is hiring people of a similar skill for another department. Such a practice is undoubtedly one of the most shortsighted ever adopted by any management. In the short run, the company saves money. But in the long run it must lose. Employees soon learn what to expect, and what happens? The better qualified leave for more permanent jobs in other organizations, while the less efficient restrict their output to make their jobs last longer. As a result, costs go up and eventually these companies find they are no longer competitive.

TABLE 21

Team	Number of units produced	Company average
A	2,083	1,933
B	1,997	1,933
C	1,943	1,933
D	1,922	1,933
E	1,898	1,933
F	1,867	1,933
G	1,821	1,933
Total.........	13,531	13,531

One variation of incentive programs that has proved successful in a few companies is a monthly group bonus based on the performance of a group as a whole as com-

pared with similar groups. Under this sort of incentive plan, employees are assigned to teams, and records are kept of the totals produced by the teams instead of by individuals. At the end of the month, a comparison is made of the performance of the teams competing against each other as illustrated in Table 21.

Based on this comparison, employees and their supervisors are awarded a group bonus. This group bonus is divided among the individual employees according to the relationship of an individual's salary or wage to the total salaries and wages for the group. The group bonus itself varies according to the performance of the group in relationship to other groups.

Such a program promotes a team loyalty and a job interest that is lacking under most incentive plans. In addition, it tends to eliminate absenteeism and loafing because employees trying to earn a group bonus insist on the other members of the team doing their share.

Fortunately for both management and labor, more and more companies are discarding incentive plans based on fixed standards in favor of plans based on competition between employees or groups of employees. It is only a question of time before all incentive programs will provide real incentives that will keep employees striving to improve.

CHAPTER VII

GENERAL JOB CLASSIFICATIONS—I

In large organizations today, the duties of individuals are so complex and varied that a great number of descriptive organizational titles are in constant use. This is sound practice because otherwise there would be utter confusion. That the number of individual job titles runs high is brought out by a survey of three firms, made by an industrial engineer in 1943. The results of this survey are shown

TABLE 22

Company	Hourly employees		Office employees	
	Number of employees	Number of job titles	Number of employees	Number of job titles
A	15,000	40	3,500	950
B	6,000	35	2,800	650
C	6,000	45	2,000	400

in Table 22. There was approximately one individual job title for every 225 hourly workers, as compared with approximately one individual job title for every four office employees. Although one individual job title for every four office employees may be all right, from an organizational viewpoint, it is a monstrosity from a salary-administration angle. For this reason, after establishing range schedules such as are shown in Tables 11 and 12, the next step in solving the salary and wage administration problems of any organization should be the setting up of standard general job classifications. To control salaries and wages and to have flexibility in granting adjustments, it is almost mandatory to have general job classifications.

Yet surprisingly enough, hardly any companies have job classifications for office employees except for a comparatively few clerical and stenographic classifications. The reason for this is that most executives and most department managers do not realize the difference between

1. A descriptive job title used for organizational purposes, and
2. A general job classification used for job evaluation and salary and wage administration purposes.

In fact, if five employees in company managerial positions were asked what was the difference between the words (1) "job," (2) "position," and (3) "job classification," four out of five would say none. Yet there is a considerable difference. The words job and position refer to individual jobs or positions, and the word job classification to a group of individual jobs or positions similar in nature and content and in required amount of knowledge, skill, responsibility, education, and experience.

Over a period of years, the various individual hourly jobs have been grouped under general job classifications, such as those shown below for a typical maintenance department:

1. Apprentice mechanic.
2. Junior mechanic.
3. Mechanic.
4. Senior mechanic.
5. Master mechanic.

Included in these general job classifications are many different kinds of mechanics, such as

1. Boiler-house mechanics.
2. Brake and wheel mechanics.
3. Engine overhaul mechanics.
4. Ignition mechanics.

But no one would ever think of using the above organizational job titles in any discussion involving wage rates. Yet the same individuals who would never use an organizational title for an hourly worker when setting wage rates

will (in the same breath) insist on setting salary rates for such individual office organizational job titles as the following clerical positions:

1. Accounts-payable clerks.
2. Accounts-receivable clerks.
3. Cost and property clerks.
4. Personnel clerks.

The reason for establishing job classifications for hourly workers and not for office employees is simply that it would be impossible to control wages of hourly workers without them. In the vast majority of companies, the number of office employees, comparatively speaking, is few. For this reason, in the past management has been able to administer and control salaries of clerical employees without general job classifications.

Those days are now gone. Salary stabilization and union requests for wage increases for hourly workers have finally made office employees demand more uniformity in the salary structure. Henceforth, in order to control turnover of office employees, companies will find it is almost mandatory to establish general job classifications for all office positions.

To establish job classifications for salaried employees in any company that has never used job classifications before is a simple matter. After all, in most companies there are really only five types of salaried employees to be classified:

1. Clerks.
2. Stenographers.
3. Supervisors of hourly workers.
4. Professional and administrative specialists and supervisors.
5. Miscellaneous employees, such as messengers and porters.

Since a job classification merely designates a particular salary or wage range, the number of job classifications in any particular family grouping, such as the clerical family, the stenographic family, the engineering family, and the

accounting family, is necessarily limited by the number of job levels there are in a company's range schedules.

To illustrate, if a company was using a salary-range schedule such as is shown in Table 11 and was paying various clerical employees \$80 to \$240 a month, the number of clerical job classifications would be limited to seven because there are only seven job levels between \$80 and \$240. What to call the seven job classifications is immaterial, except that an effort should be made to use titles that are fairly descriptive of the importance of the job classification. Titles such as shown in Table 23 are fairly common.

TABLE 23.—CLERICAL JOB CLASSIFICATIONS

Job level	Salary range	Clerical job classifications	
		Company *A*	Company *B*
2	\$ 80–\$120	Junior clerks	Junior clerks
3	90– 135	Clerks	Under clerks
4	100– 150	Sr. clerks, class *B*	Assistant clerks
5	110– 165	Sr. clerks, class *A*	Clerks
6	125– 185	Principal clerks, class *B*	Senior clerks
7	140– 210	Principal clerks, class *A*	Principal clerks
8	160– 240	Chief clerks	Chief clerks

Whether a company should use the titles of one of the companies of Table 23 depends on past practice. If a company has called most of its employees on the \$100 to \$150 range "clerks," it should continue the practice and adopt titles accordingly. If, on the other hand, a company has called employees earning \$110 to \$165 "clerks," it should call employees on this level "clerks" and call employees on the \$100 to \$150 range "assistant clerks," or something else that is descriptive of a job classification of less importance.

As soon as a company has decided how many clerical job levels it is going to establish and what the titles are going to be, it should start grouping the various organizational jobs or positions. In a company that does not have a job-evaluation unit, the preliminary grouping of the individual

jobs or job classifications should be handled according to salaries previously paid, as outlined in Table 24.

TABLE 24.—CLASSIFYING JOB CLASSIFICATIONS

Before classification		After classification		
Organizational job titles	Salary range	General job classification	Job level	Salary range
File clerks	$ 80–$110	Junior clerks	2	$ 80–$120
Addressograph operators	80– 110			
Mimeograph operators	80– 110			
Pay-roll clerks	80– 115			
Reference clerks	80– 120			
Property-record clerks	80– 120			
Accounts payable clerks	$ 90–$135	Clerks	3	$ 90–$135
Accounting clerks	90– 135			
Pay-roll operators	90– 135			
Business-machine operators	90– 135			
Comptometer operators	90– 135			
Receptionists	100– 125			
Mail-room clerks	100– 130			
Personnel clerks	100– 135			
Utility clerks	100– 135			
Stock-room clerks	110– 135			
Warehouse clerks	110– 135			
Toolroom clerks	110– 135			
Etc.	....	Senior clerks, class *B*	4	$100–$150

Under an arrangement like that shown in Table 24, any position the duties of which are primarily clerical classified to

1. Job level 2 carries the job classification title of junior clerk.
2. Job level 3 carries the job classification title of clerk.
3. Job level 4 carries the job classification title of senior clerk, class *B*.
4. Etc.

The position might also carry an organizational title such as "accounts-payable clerk," but this is unimportant from

a salary-administration viewpoint. A company does not even need a formal job-evaluation plan to set up a program such as this, although job evaluation would perhaps be more accurate for classifying individual jobs to job levels and might help to eliminate internal inconsistencies.

When establishing job-classification titles for clerical employees, most companies include under the clerical classifications all comptometer operators, business-machine operators, addressograph operators, and mimeograph operators. The reason for including these employees is that their work is primarily clerical. In addition, some firms include all kinds of typists under their clerical classifications.

This is not a universal practice, however, as many concerns include their typists under the stenographic rather than the clerical classifications, while still others include them under both the stenographic and the clerical.

The stenographic family grouping in most companies has the same salary limitations as the clerical and follows the pattern of one of the groupings of Table 25.

TABLE 25.—STENOGRAPHIC JOB CLASSIFICATIONS

Job level	Salary range	Company *A*	Company *B*
1	$ 70–$105	Typists	
2	80– 120	Jr. stenographers	Jr. stenographers
3	90– 135	Stenographers	
4	100– 150	Sr. stenographers	Stenographers
5	110– 165	Jr. secretaries	
6	125– 185	Secretaries	Jr. secretaries
7	140– 210	Sr. secretaries	Secretaries
8	160– 240	Executive secretaries	Executive secretaries

As was the case in the clerical-family grouping, what job-classification titles should be used depends entirely on the needs of each particular company. Companies with few stenographic and secretarial positions would follow the pattern of company *B*, while companies with many positions would need job classifications similar to those of company *A*.

In the hourly supervisory group, the salaries generally range from $160 to about $450. Under a salary-range schedule such as that of Table 11, the number of supervisory job classifications would be limited to a maximum of eight.

Possible combinations and titles are shown in Table 26.

TABLE 26.—SUPERVISORY JOB CLASSIFICATIONS

Job level	Salary range	Company *A*	Company *B*
8	$160–$240	Group leader	Group supervisor
9	180– 270	Group supervisor	
10	200– 300	Foreman, class *C*	Floor foreman
11	220– 330	Foreman, class *B*	
12	240– 360	Foreman, class *A*	Shift foreman
13	260– 390	Gen. foreman, class *C*	
14	280– 420	Gen. foreman, class *B*	Gen. foreman
15	300– 450	Gen. foreman, class *A*	

In the professional and administrative specialists and supervisory group, the salaries generally range from about $160 to $400. Under the salary-range schedule of Table 11, the number of these classifications would be limited to a maximum of six. Since standardization simplifies salary administration, standard titles should be established in all departments, if possible.

This can be accomplished by agreeing beforehand on the general type of titles to be used. While the number of such general combinations is many, they should follow the general pattern of Table 27.

TABLE 27.—PROFESSIONAL AND ADMINISTRATIVE JOB CLASSIFICATIONS

Job level	Salary range	Combination *A*	Combination *B*
8	$160–$240	Jr. specialist	Jr. specialist, class *B*
9	180– 270	Specialist	Jr. specialist, class *A*
10	200– 300	Sr. specialist	Specialist, class *B*
11	220– 330	Jr. supervisor	Specialist, class *A*
12	240– 360	Supervisor	Sr. specialist, class *B*
13	260– 390	Sr. supervisor	Sr. specialist, class *A*

If a company decides to adopt a combination such as *A* in Table 27, the divisional classifications would be as shown in Table 28.

TABLE 28.—DIVISIONAL JOB CLASSIFICATIONS

Job level	Salary range	Accounting division	Engineering division
8	$160–$240	Jr. accountant	Jr. engineer
9	180– 270	Accountant	Engineer
10	200– 300	Sr. accountant	Sr. engineer
11	220– 330	Accounting–Jr. supervisor	Engineering–Jr. supervisor
12	240– 360	Accounting supervisor	Engineering supervisor
13	260– 390	Accounting–Sr. supervisor	Engineering–Sr. supervisor

Job level	Salary range	Purchasing division	Industrial relations division
8	$160–$240	Jr. buyer	Jr. personnel representative
9	180– 270	Buyer	Personnel representative
10	200– 300	Sr. buyer	Sr. personnel representative
11	220– 330	Jr. supervisor, purchasing division	Jr. supervisor, industrial relations division
12	240– 360	Supervisor, purchasing division	Supervisor, industrial relations division
13	260– 390	Sr. supervisor, purchasing division	Sr. supervisor, industrial relations division

With the divisional classifications of Table 28 for professional and administrative specialists and supervisors and the clerical, stenographic, and supervisory classifications of Tables 23, 25, and 26 as the basic pattern, it should be easy for almost any company to set up standard job classifications for 90 per cent or more of its salaried employees. One company that placed a program similar to this in effect found it took only a few hours to classify all accounting positions. The job titles before and after the classification are shown in Table 29.

In Tables 23, 24, 26, and 29 there is an orderly upward arrangement of job classifications. Under such an arrangement it is possible to show junior clerks how they can

TABLE 29.—GENERAL JOB CLASSIFICATIONS FOR ACCOUNTING SPECIALISTS AND SUPERVISORS

Before classification	After classification		
Organizational job titles	Job classifications	Job level	Salary range
Cost and property clerks Accounts-payable clerks Pay-roll clerks Accounts-receivable clerks Jr. field auditors Jr. internal auditors	Jr. accountant	8	\$160–\$240
Factory cost accountants Field auditors General accountants Sr. pay-roll clerks	Accountant	9	\$180–\$270
Manager accounts receivable Cost and property supervisor Time-clerk supervisor Assistant cashier	Sr. accountant	10	\$200–\$300
Cashier Manager accounts payable	Accounting Jr. supervisor	11	\$220–\$330
Manager factory cost accounting Manager general accounting	Accounting supervisor	12	\$240–\$360
Manager timekeeping Manager internal auditing Paymaster	Accounting Sr. supervisor	13	\$260–\$390

become chief clerks, and junior accountants how they can become accounting senior supervisors.

Many companies, apparently not realizing the employees' desire to know to what positions they can advance if they do good work, fail to provide an orderly progression upward within each department. This is poor psychology. To keep employees trying to qualify for positions paying more

money, it is essential to establish an orderly upward arrangement of job classifications in all departments.

If a company providing such an orderly progression establishes its job classifications so that there is internal consistency and pays on the average the mid-points of its job classifications, it will soon find salary and wage administration a minor problem.

CHAPTER VIII

GENERAL JOB CLASSIFICATIONS—II

The creation of general job-classification titles under which to group individual jobs does not mean that organizational titles or descriptive job titles can no longer be used. It means that they can no longer be used alone. A general job classification is a tool that management uses to designate a particular salary or wage-range level. To illustrate, the title "pay-roll clerk" by itself means nothing from a salary administrative angle, but the title "junior accountant —(pay-roll clerk)" means a salary range of $160 to $240.

From a salary and wage administrative and a salary and wage control viewpoint, individual jobs that are similar in nature and in required amount of knowledge, skill, experience, and responsibility should be combined under general job classifications if at all possible. This simplifies internal salary and wage administration considerably. Strangely enough, many companies have overlooked this possibility. Apparently they do not realize that they have the right to deliberately arrange and rearrange the work assigned to individuals so that a number of individual positions will have approximately the same value to the company. Consequently, they make no attempt to combine positions under general job classifications, but treat each position as though it were a separate entity. This not only results in untold confusion, but makes difficult the administration of a salary or wage program on any intelligent basis. If all concerns would group individual positions under general job classifications, half of their salary and wage administration problems would disappear immediately.

To illustrate, one of the major problems of salary administration is to pay fair salaries to employees whose duties

and responsibilities gradually increase over a period of time until there is little, if any, similarity between their work today and their work 6 months or a year ago; and yet whose organizational title is still the same. One such position in one company was that of accounts payable supervisor. On Sept. 15, 1942, this was a purely routine job that could be handled by almost any competent accountant. By May, 1943, owing to changes in government contracts, the number of employees in the accounts payable department had gradually increased from 15 to 94 and the responsibilities of the position were then such as to require the services of an expert accountant, one with many years of experience. The job was obviously worth considerably more money than was previously paid. Yet because it carried the same job title as before, no one thought to pay more money for the position until the incumbent resigned. If the company had had general job classifications and periodic reviews of the jobs under each classification, the problem would have been simple. The division manager, a job analyst, or some other individual designated to classify jobs would have reviewed the job, rerated it, and reclassified it as shown in Table 30.

TABLE 30

Date	Organizational job title	Job classification	Job level	Salary range
Sept. 15, 1942....	Accounts payable supervisor	Sr. accountant	10	\$200–\$300
May 31, 1943.....	Accounts payable supervisor	Accounting Sr. supervisor	13	260–390

In salary administration, such a reclassification is a routine everyday occurrence. The value of one job increases, the value of another decreases, so the jobs are rerated and reclassified to different general job classifications. This, to those individuals who do not know the difference between a job title for organizational purposes

and a job classification for salary administration purposes, is most confusing. They are afraid that the transaction will upset a previously established relationship between the various jobs within the company, and they overlook the fact that the relationship was changed when the duties and responsibilities of the jobs were changed. Yet these same individuals will take a girl who does nothing but filing and who carries the title of file clerk, give her a couple of reports to prepare each month in addition to her filing, and reclassify her as an accounting clerk and think nothing of it. Why? Because in the lower brackets the standards have been set, and this has been routine practice for years. Management in most companies has been lax in establishing general job classifications beyond the lower levels. This has been a costly mistake, because in order to administer salaries intelligently job classifications must be established wherever possible, even up to the officers of the company.

If a company has general job classifications and salary and wage range schedules, it has almost complete freedom of action. Table 31 shows how an employee can be called an assistant controller and still be classified to any number of job classifications merely by changing the responsibilities of the positions.

Whether the assistant controller should head up two, three, four, five, or six subdepartments or departments depends entirely on the qualifications of the individuals available. Unfortunately in business, the type of employee that management would like to have is not always the kind management has. For this reason, management frequently has to rearrange the work within the organization in order best to utilize the employees on hand.

There are so many of these normal reclassifications taking place in business every day that an executive or a department manager trying to play favorites by granting non-justified reclassifications could probably get away with it, except for one factor—the company's other employees.

The average employee is very conscious of the job classification given other employees and resents the slightest discrimination. While in many cases the resentment smolders beneath the surface, sometimes for months before it breaks out, in other cases there is an immediate and open rebellion. A good illustration of the latter type took place in a large manufacturing company in 1944. An employee in a particular department was given a classification higher than her job merited, and the other nine girls in the department all promptly resigned. For this reason, great care should be taken in classifying and reclassifying employees, because unless the task is done with a reasonable degree of accuracy it may boomerang and accelerate turnover at a time when a company can ill afford to lose competent employees.

In general, the basic factors underlying the salary and wage structure vary considerably between the hourly and the salaried employee. To illustrate, an hourly classification could command $1 an hour because of

1. Dexterity required,
2. Skill required,
3. Working conditions, etc.,

and a salary classification of $175 a month, or approximately $1 an hour, because of

1. Education required,
2. Intelligence required,
3. Initiative required, etc.

Employees on both classifications would receive approximately the same amount of money each month for unrelated reasons. This difference in the basic factors makes it practically impossible to establish one job-evaluation system for both hourly and salaried employees.

Over a period of years, various organizations have developed job-evaluation systems, some for office employees, some for hourly workers. The majority of these systems

TABLE 31

	Departments under the jurisdiction of the assistant controller				
	A	*B*	*C*	*D*	*E*
Organizational job title	Assistant controller	Assistant controller	Assistant controller	Assistant controller	Assistant controller
	Accounts payable Accounts receivable	Accounts payable Accounts receivable Contract accounting	Accounts payable Accounts receivable Contract accounting General accounting	Accounts payable Accounts receivable Contract accounting General accounting Cost accounting	Accounts payable Accounts receivable Contract accounting General accounting Cost accounting Paymaster
Job classification	Department manager	Sr. department manager	Jr. division manager	Division manager	Sr. division manager
Salary range	\$350–\$525	\$400–\$600	\$450–\$675	\$500–\$750	\$600–\$900

has been created for office workers for the simple reason that the average office job is more complicated and more difficult to rate. Hourly classifications because of the large number employed for each type of work have been more or less standardized for years. This has permitted companies to prepare detailed specifications for the various hourly classifications and has allowed supervisors to classify the individual hourly jobs under their jurisdiction with a fair degree of accuracy. Except to establish the original classifications and specifications, few firms need a formal job-evaluation system for hourly workers.

Since the earnings of "supervisors of hourly workers" must be related to the earnings of the hourly workers under their jurisdiction, by the same line of reasoning a formal job evaluation is often unnecessary for supervisory personnel. In most companies, hourly jobs fall into three general types:

1. Unskilled.
2. Semiskilled.
3. Skilled.

Supervisors of these workers fall into five general types:

1. Supervisors of unskilled workers.
2. Supervisors of unskilled and semiskilled workers.
3. Supervisors of semiskilled workers.
4. Supervisors of semiskilled and skilled workers.
5. Supervisors of skilled workers.

Since in most organizations there are three levels of supervision only,

1. The group leader—the first level,
2. The shift foreman—the second level,
3. The general foreman—the third level,

it is possible to break down all the various kinds of supervisors by type of worker supervised and to classify each supervisory job to a general job classification with a fair degree of accuracy along the lines shown in Table 32.

This breakdown brings out the differences in value of

TABLE 32

Job level	Salary range	Job classification	Breakdown of supervisors by type of worker supervised				
			1	2	3	4	5
			Unskilled	Unskilled and semi-skilled	Semi-skilled	Semi-skilled and skilled	Skilled
8	$160–$240	Group leader	1st level				
9	180– 270	Group supervisor	....	1st level			
10	200– 300	Foreman, class *C*	2d level	....	1st level		
11	220– 330	Foreman, class *B*	....	2d level	....	1st level	
12	240– 360	Foreman, class *A*	3d level	....	2d level	....	1st level
13	260– 390	General foreman, class *C*	....	3d level	....	2d level	
14	280– 420	General foreman, class *B*	....	....	3d level	....	2d level
15	300– 450	General foreman, class *A*	....	....	....	3d level	
16	320– 480	General foreman, class *AA*	....	....	....	....	3d level

supervisory jobs based on type of employee supervised. In Table 32 the "normal" salary of the third level of supervision for unskilled workers is $100 below the normal salary for the third level of supervision for skilled workers. Yet in most companies the organizational titles of the supervisors of the unskilled and the skilled will be the same, *i.e.*, supervisors will carry titles like the following:

Level	Porter service, (unskilled)	Machine shop, (skilled)
1st	Group leader	Group leader
2d	Shift foreman	Shift foreman
3d	General foreman	General foreman

Whenever organizational titles such as these are used without general job-classification titles as a limiting factor, it soon becomes difficult to explain to certain employees why they are on lower job levels than other employees with the same job title. The average employee in business does

not realize that there is a difference between a job title for organizational purposes and a job classification for salary-administrative purposes. Moreover, if a company does not have general job classifications, it is sometimes impossible to make employees understand that differences in salaries for employees with the same job titles can be justified by differences in responsibilities. When management tries to explain something like this, the stock answer is, "Why give me the same title if I do not have the same responsibility?" There is no good answer to this question, because management is at fault for allowing the employee to believe the job was more important than it was.

Companies should establish general job classifications for all jobs. In addition, they should make sure that each individual knows the job-classification title, the rate range, *i.e.*, the minimum, normal, and maximum, and the organizational title of the job to which he has been assigned. It is only by following such a policy that companies can avoid one of the most common complaints of their employees.

Many executives will argue that it is unwise to tell an employee what the salary or wage range is for his job classification. Such an argument is not based on reason; for how can an employee have an incentive to improve if there is no goal at which to shoot. Employees are entitled to know how much a job is worth to the company, and companies that fail to give this information to their employees are adopting a very shortsighted policy.

Unless a company uses general job classifications, it is practically impossible to compare salaries and wages intelligently either internally or externally. Organizational job titles mean absolutely nothing in most companies. As was brought out in the above example on supervision, the title "general foreman" might be applied to individuals on five different job levels. And the example of assistant controller illustrates how the value of a title can vary even within a department. Obviously, if the value of a general foreman's job and an assistant controller's job can vary as

much as five job levels on a salary-range schedule, any comparison of their jobs with any other jobs without considering the job content is ridiculous. Yet such comparisons are very common in industry. In fact, many increases have been granted as the result of similar silly comparisons.

If such comparisons are worthless within a company, they are doubly so for comparisons with other companies. Because of internal differences in organization, it would be a miracle if an individual position in one company carried the same duties and responsibilities as an individual position in another company. Unless two companies have enough employees on similar classifications so that the duties are standardized in both, any attempt to compare average salaries or average wages is a waste of time. Ordinarily, a company should never ask another company what the salary or wage rate range is for a classification unless both companies have at least 10 employees on the classification to be compared. If there are fewer than 10 employees on a given classification, standardization between the two companies is almost an impossibility. Unfortunately, many concerns do not realize the truth of this statement. As a result, companies are constantly receiving requests for comparisons involving a wide variety of job titles. These requests became such a burden on one company that it finally adopted a policy of returning all such requests with the notation "no comparable classification" unless there were at least 10 employees in its organization on the classification for which a comparison had been requested.

In many organizations, one of the major problems of the executives who are charged with administering salaries and wages is how to handle individual department managers who are always complaining that employees under their jurisdiction are being paid less than employees in similar capacities in other firms. These department managers are guilty of comparing organizational job titles against organizational job titles, and most of them have never heard of

general job classifications. They do not know that the primary purpose of salary and wage administration is to achieve internal consistency and that all other aims are secondary. If all companies would strive for internal consistency and pay no attention whatsoever to what other companies were paying for individual jobs, industry as a whole would be better off. The basic salary and wage rates of any company must be related to each other. For this reason, once a company has established rates for hourly and clerical classifications and has set up a relationship between these rates and the rates for the supervisors of employees on these classifications, it has automatically established rates for all other jobs within the company. To change the base rate of pay of one classification because some other company happens to be paying more for that classification is ridiculous. Unless a proposed change can be justified on the grounds that it creates better internal consistency, it should not be made.

CHAPTER IX

JOB EVALUATION—I

In industry today there are almost as many job-evaluation systems as there are companies using them. Practically all these are variations or combinations of four generally accepted methods:

1. The classification method.
2. The ranking method.
3. The factor-comparison method.
4. The point-evaluation method.

While each of these methods has certain disadvantages, each also has definite advantages. For this reason when establishing a job-evaluation plan, a company should review each of the four accepted methods and should borrow the desirable features of each for its program.

The classification method advocates establishing

1. Uniform salary ranges.
2. General job classifications.

This is not only logical, but is also a very necessary part of any salary-administration program. The reason that the classification method has not proved too successful in most companies is that the classifying of individual jobs to job classifications or job levels has been left to department managers and executives, who had previously determined the approximate value of each job in that they had set the salaries or wages being paid. When these same individuals were asked to classify individual jobs to job levels, they naturally tended to place the jobs on levels according to the salaries or wages of the employees on the jobs. The result was to perpetuate inequalities already in existence. This in turn led to complaints that the system was no good, and in many companies the program was

abandoned. This was a mistake, for fundamentally the classification system was sound and all that was wrong was that the company had a poor way of classifying individual jobs. The solution should have been to develop a better method of classifying.

The second method of evaluating jobs, the ranking method, considers the entire job and compares it with all other jobs in the department, the division, or the company. Under this system, department managers, supervisors, and executives are asked to rank the various individual jobs under their jurisdiction in the order of their importance. The opinions of the individuals participating are then averaged, and salary and wage ranges established accordingly. The main objection to this method is that business today is so complex that it is almost impossible to find individuals who are able to rank more than a few jobs intelligently. The principal of ranking, however, is sound, and job analysts in many companies now use it as a check on their evaluation under another system.

The third and fourth methods of evaluating jobs, the factor-comparison method and the point-evaluation method, are in reality merely variations of the same system, in that they both break down the jobs into factors or job elements. The only difference between the two is that the factor-comparison method compares job against job and the point evaluation compares the job against a point scale. Both are superior to either the ranking method or the classification method in that they provide for a better analysis of the job, and thus improve the possibility of arriving at a better approximation. The word approximation was used deliberately, because at best all the formal job-evaluation systems are subject to a margin of error. This should not, however, deter any company from establishing a formal program; for as long as the average employee is satisfied that the program is fair, the job-evaluation plan will be a success.

The reason that the comparing of factors is such a desir-

able feature of a job-evaluation program is that it permits comparisons of unrelated jobs or job classifications. Without a factor breakdown, it is almost impossible to compare a typist with a porter, or a porter with a mechanic, or a mechanic with an accountant, or an accountant with a chemist, or a chemist with an engineer. By breaking each job down into factors or elements common to all jobs, it is possible to compare the factors and then, by adding the factors together, to compare the jobs themselves.

In the four methods of job evaluation outlined above, the features that are desirable and that should be an integral part of any sound job-evaluation system are the following:

1. Uniform ranges with predetermined job levels (the classification method).
2. Predetermined job classifications (the classification method).
3. The breakdown of the jobs into factors common to all jobs (the factor-comparison method and the point-evaluation method).
4. The comparing of the factors either by

    a. Job against job (the factor-comparison method) or
    b. Job against a point scale (point-evaluation method).

Before establishing a job-evaluation system involving a breakdown of factors common to all jobs, a company must decide what factors are going to be analyzed and evaluated. Generally the number of factors used depends on the type of industry and the size of the organization. Some companies use as few as 4; others use as many as 30. Perhaps the best way to determine what factors to use in setting up a job-evaluation program for office employees is for a company to obtain detailed job descriptions of

1. All the lower salaried classifications on which there are 20 or more employees, and
2. All the upper salaried classifications on which there are 10 or more employees,

and then analyze these representative classifications to find out what factors are common to all jobs. In an average company, this would mean analyzing approximately 20 key classifications. This analysis should determine not only

1. The factors involved, but also
2. The minimum value to be placed on each.

One easy way to do this is to use a point system where

1. Each point is equivalent to $1 and
2. Where the answer is always the minimum salary to be paid for the classification.

Some job-evaluation point systems are based on determining the normal or maximum value of the job rather than the minimum. From a salary-administration viewpoint this is immaterial, because if the salary ranges are uniform the answer is the same in all three cases. From a practical viewpoint, industrial engineers and job analysts have found it easier to talk in terms of minimum requirements for a job, and the vast majority of the job-evaluation systems are based on minimum requirements.

In addition, most companies using a point system to evaluate office positions have found it advisable to limit the number of degrees a factor can vary to six and to establish a sort of geometrical progression where the sixth degree is worth ten times the first.

TABLE 33

Factor	*A*	*B*	*C*	*D*	*E*	*F*
1	10	16	25	40	64	100
2	5	8	12	20	32	50
3	13	21	33	52	84	130
4	20	32	50	80	128	200
Etc.						
Total.	100	160	250	400	640	1,000

Under this arrangement, the total of the points under degree A is always 100, and the total under degree F is

always 1,000. By using a predetermined scale such as this, a company analyzing its representative classifications then only has to determine

1. What factors to use.
2. What the point value should be for the first degree of each factor.

To accomplish this, most companies use a trial-and-error method. That is, they determine the factors to be used and then they juggle the points awarded to each factor until the ratings for the key classifications, when converted to dollars, produce minimums that are the closest possible to the present minimums for each job.

When analyzing key classifications to determine the factors to be used and the weights to be placed on each, the question that should be uppermost in the minds of the individuals making the survey should be, "Why do we pay the beginner on this classification $80?"

Breaking this question down into subquestions, the individuals making the survey should ask, "Is it because the classification requires (1) personality, (2) education, (3) experience, (4) intelligence, etc., and if so, how much?" Answering questions such as these leads to the discovery that a beginning typist-clerk and a secretary are paid the amounts shown in Table 34 for each of five different factors.

TABLE 34

Factors	Secretary	Typist-clerk
Performance responsibility	$ 40	$40
Initiative responsibility	16	10
Intelligence	50	32
Experience	21	
Education	28	11
Total	$155	$93

By the time 20 classifications such as these have been analyzed, management should have a pretty good idea why they have been paying certain salaries and what factors to use in setting up a job-evaluation system.

One company that used this trial-and-error method in 1943 found that it took less than a month to establish an over-all program. The salary rating weights that were developed for this company are shown in Table 35.

TABLE 35.—SALARY RATING WEIGHTS, COMPANY *A*

Factors	*A*	*B*	*C*	*D*	*E*	*F*
Performance responsibility......	16	25	40	64	102	160
Asset responsibility............	5	8	12	20	32	50
Initiative responsibility.........	10	16	25	40	64	100
Intelligence....................	20	32	50	80	128	200
Experience.....................	13	21	33	52	84	130
Education......................	11	18	28	44	70	110
Personal contacts..............	10	16	25	40	64	100
Supervision....................	10	16	25	40	64	100
Working conditions............	5	8	12	20	32	50
Totals........................	100	160	250	400	640	1,000

A point-evaluation system such as outlined in Table 35 for company *A* has a decided advantage over all others in that the relationship between jobs is first expressed in points. By awarding points according to the degree a factor is present in a job, it is possible to place a point value on each job in the company. Once this is done, management can convert the points into dollars and be assured of internal consistency.

To illustrate, the total number of points as determined by company *A*, using the salary-rating weights of Table 35 for three key job classifications, might be as follows:

	Job-evaluation Points
Stenographer.............................	106
Senior accountant.........................	203
Department manager.......................	308

In the above illustration there would be a true relationship between the job classifications as expressed in points. This relationship would hold true as long as the duties and responsibilities of the job classifications remained the same.

In the above example the conversion of the points to

dollars should be a management decision. If a company is to be internally consistent, the establishment of normal salaries for any two job classifications would automatically set the normals for all others.

If a company establishes a job-evaluation program whereby each point is equivalent to $1, the conversion from points to dollars is an easy task. All that is necessary is to follow the uniform salary range schedule of Table 11 and set up a table similar to Table 36.

TABLE 36.—CONVERSION TABLE, COMPANY *A*
Salary Range Schedule of Table 11

Job classifications with point ratings of less than 80 points	Job level 1
Job classifications with point ratings 80 to 89 points	Job level 2
Job classifications with point ratings 90 to 99 points	Job level 3
Job classifications with point ratings 100 to 109 points	Job level 4
Etc	Etc.

Under the above conversion table

1. A stenographer with a point rating of 106 would be classified to job level 4 on a salary range of $100 to $150, with a normal of $125.

2. A senior accountant with a point rating of 203 would be classified to job level 10 on a salary range of $200 to $300, with a normal of $250.

3. A department manager with 308 points would be classified to job level 15 on a salary range of $300 to $450, with a normal of $375.

Under a uniform salary-range schedule the minimums, normals, and maximums are related to each other. These relationships can be expressed on a chart in the form of straight lines such as shown in Fig. 1.

In the chart of Fig. 1, there is internal consistency, since the job classifications within the company are related to each other instead of to job classifications in other companies.

A company that classifies jobs on a basis such as shown in Fig. 1 is said to have a uniform salary structure, and the line connecting the normals is called a salary curve. In other words, a standard salary curve has been established.

and the normals for all job classifications must fall on this curve. Under a uniform salary structure, as long as the duties and responsibilities of a position remain the same, the normal for a position cannot be changed except when the slope or level of the salary curve is changed. Under this method of operation, the normal salary of any pressure

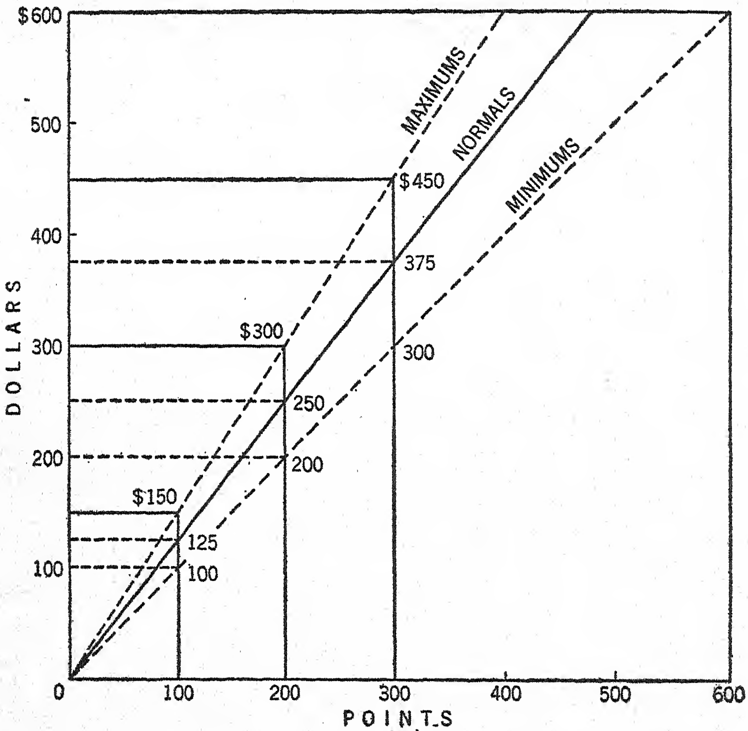


FIG. 1.—Chart of salary curve normals.

group cannot be raised unless it creates better internal consistency or unless all normals are changed proportionately. This will affect union negotiations in that a company with a uniform salary structure will find it expedient to analyze all wage and salary rates in the future at the same time.

Also, under this method of operation, men and women must automatically be placed on the same job level since

a point system rates the position and not an individual. This does not mean necessarily that men and women doing the same type of work will receive the same salary, because

1. If the men do work other than that done by women, such as handling heavy materials, there is a difference in job content. If it is a rateable difference, a separate job with a different normal should be established for the men.

2. If the men, or the women, assume more responsibility and do better work, they should be rewarded. This, however, is a difference in job performance and should not affect the salary range or salary normal.

CHAPTER X

JOB EVALUATION—II

In any job-evaluation system if consistent results are to be obtained, the separate factors of the rating system must be defined to a reasonable extent and the rating values applied accordingly. For this reason, after establishing salary rating weights such as shown in Table 35, the next step should be to establish a few general rules for the job analysts to follow. These rules should be fairly rigid and at the same time easy to understand. To illustrate, company *A* of Table 35 set up the following rules when it established its formal program in 1943:

1. Performance responsibility (the responsibility for doing a particular job)
   - 40 points—all nonmanagerial classifications
   - 64 to 160 points—all managerial classifications—the degree awarded being consistent with the particular position's place on the organizational chart
2. Asset responsibility
   a. Direct asset responsibility (estimated on the average monthly loss that might occur because of fraud, theft, carelessness, incompetency, or error in judgment before the cause can be removed)
   - 5 points—if monthly loss is $25 or less
   - 8 points—if monthly loss is $26 to $100
   - 12 points—if monthly loss is $101 to $500
   - 20 points—if monthly loss is $500 to $1,000
   - 32 points—if monthly loss is $1,000 to $2,500
   - 50 points—if monthly loss is over $2,500

b. Indirect or intangible asset responsibility

5 points—if performance responsibility award is 40 points

8 points—if performance responsibility award is 64 points or more

Add points for *a* and *b* if both types of asset responsibility exist.

3. Initiative responsibility (authorized freedom of action consistent with the job)

   10 points—detailed instructions. The work covered by definite detailed instructions and under immediate supervision

   16 points—established procedures. The work done according to established procedures or general rules under periodic supervision only

   25 points—general direction. The work done under the general direction of a superior who has given employee considerable authority to exercise judgment

   40 points—no direct supervision. The entire task turned over to employee for satisfactory performance of the job as his judgment dictates

   64 points—executive or staff positions with complete freedom of action

4. Intelligence (mentality required for the job, *i.e.*, the degree of mentality necessary for learning and performing the job according to required standards)

   20 points—porters, janitors, messengers, and similar classifications

   32 points—clerks, stenographers, typists, book-keepers, etc.

   50 points—private secretaries, supervisors, drafts-men, accountants, etc.

80 points—department managers and specialists
128 points—major department managers and senior specialists

5. Experience (minimum previous experience necessary to handle a particular job)
   13 points—6 to 12 months specific experience or 13 to 30 months general experience
   21 points—13 to 30 months specific experience or $2\frac{1}{2}$ to 5 years general experience
   33 points—$2\frac{1}{2}$ to 5 years specific experience or 6 to 10 years general experience
   52 points—6 to 10 years specific experience or 11 to 15 years general experience
   84 points—11 to 15 years specific experience or over 15 years general experience
   130 points—over 15 years specific experience
6. Education (minimum education or its equivalent necessary to handle a particular job)
   11 points—high school plus 6 months to a year of business, commercial, or vocational training
   18 points—1 to 3 years of college or equivalent specialized training
   28 points—college or university (graduation or its equivalent)
   44 points—college plus a year of specialized study
   70 points—college postgraduate with special degree
7. Personal contacts (ability to present and sell new ideas and to inspire confidence)
   10 points—nonroutine interdepartmental contacts, or routine public contacts (tact and poise significant)
   16 points—frequent interdepartmental or public contacts involving cooperation and requiring above average poise, tact, and resourcefulness in obtaining or presenting information

25 points—frequent and specialized contacts involving cooperation with other companies, customers, officials, or other representatives where resourcefulness in obtaining or presenting information is necessary to a high degree

40–100 points—constant or almost continuous contacts of a highly significant nature with executives, government officials, or the public

8. Supervision (over others). This falls into three classes: direct supervision, indirect supervision—line, and indirect supervision—staff. Indirect supervision—line is control which is exercised by means of line authority within a department or from top management through department heads. Indirect supervision—staff relates to responsibility for making decisions affecting employees in other positions or departments

If any job involves more than one type, add the appropriate points for each to obtain the correct total to be allowed for supervision.

10 points—if position has direct supervision over 4 to 10 employees

10 points—if position has indirect supervision of a line nature over 11 to 75 employees

10 points—if position has indirect supervision of a staff nature over 11 to 800 employees

16 points—if position has direct supervision over 11 or more employees

16 points—if position has indirect supervision of a line nature over 76 to 200 employees

16 points—if position has indirect supervision of a staff nature over 800 or more employees

25 points—if position has indirect supervision of a line nature over 201 to 500 employees

40 points—if position has indirect supervision of a line nature over 501 to 800 employees
64 points—if position has indirect supervision of a line nature over 800 or more employees

9. Working conditions
   5 points—unpleasant surroundings or considerable amount of standing or walking
   8 points—extremely unpleasant surroundings or continuous standing or walking
   12 points—slight health or accident hazards
   20–50 points—constant health or accident hazards

After establishing general rules similar to the above, the next step in developing a job-evaluation program is to prepare a job-analysis questionnaire form. This form should be designed to give the job analyst all the information needed for rating and classifying individual jobs. Good examples of forms that meet these requirements can be found in almost every book on job evaluation.

In most companies, it is the practice to have the job-analysis questionnaire filled in by the employee and approved by the supervisor. This method brings the employees into the picture and makes them realize that there is a job-evaluation system.

If job analysts in rating jobs are to be consistent they must

1. Physically inspect the job and discuss it with the employee and the supervisor.
2. Use a job-rating summary form for departmental and interdepartmental comparisons.

A typical job-rating summary illustrating how the clerical and stenographic job classifications should be prepared is shown in Table 37.

Without a form similar to Table 37 it would be a miracle if job analysts were consistent day after day. In analyzing jobs, ordinarily there are too many variations to consider. For this reason, in order to minimize the possibility of

TABLE 37.—JOB RATING SUMMARY, COMPANY *A*
Department—Stenographic and Clerical

Occupation or job title	Performance responsibility	Asset responsibility	Initiative responsibility	Intelligence	Experience	Education	Personal contacts	Supervision	Working conditions	Total
Stenographic										
Executive secretaries	40	..	16	50	33	28	..	..	..	167
Secretaries*	40	..	16	50	21	28	..	..	..	155
Junior secretaries	40	..	16	32	21	28	..	..	..	137
Senior stenographers	40	..	16	32	21	18	..	..	..	127
Stenographer*	40	..	16	32	13	11	..	..	..	112
Junior stenographers*	40	..	10	32	13	11	..	..	..	106
Typists*	40	..	10	32	..	11	..	..	..	93
Clerical										
Chief clerk	40	..	25	32	21	28	..	..	..	146
Senior clerk	40	..	16	32	21	18	..	..	..	127
Clerk*	40	..	16	32	13	11	..	..	..	112
Assistant clerk	40	..	10	32	13	11	..	..	..	106
Junior clerk*	40	..	10	32	..	11	..	..	..	93

Job rating summary prepared by________________ ____________
Date

Approved by________________________ ____________
Date

* Members of the key representative classifications used to develop the job evaluation system.

error, job analysts should establish key classifications in each department and should evaluate all other jobs in the department on a relative basis. The key classifications in each department in turn should be related to all other key classifications in other departments. This limits the comparison of classifications within a company to a maximum of 20 to 30 and ensures internal consistency with a minimum of effort.

Except for a few minor adjustments, the formal program outlined above for company *A* could be adopted by almost any company seeking a better method for determining the approximate value of individual office jobs. It should be

remembered, however, that job evaluation is only one of the tools used by management and that a company can have the best job-evaluation system in the world and still have nothing. The majority of business organizations need uniform range schedules and general job classifications far more than they need a formal job-evaluation program. For this reason, in most companies the installation of a job-evaluation plan should be postponed until the other basic tools of a sound salary and wage structure have been developed.

Generally, job analysts or industrial engineers should be employed to rate jobs, to set normals, and to determine whether or not proposed reclassifications are in order. A company can, however, establish a sound program without the assistance of job analysts or industrial engineers. This is possible because job evaluation is not an exact science; it is an approximation. If a company establishes good job specifications—not descriptions—for its job classifications, it can turn these over to supervisors and department managers and let them classify their own jobs. An impartial department manager, if he knows the jobs under his jurisdiction and their relative value to his organization, should be able to do a better job of classifying them than a half-trained job analyst. In large organizations, however, it would be a miracle if all department managers were impartial, and for this reason most companies have found it advisable to establish job-evaluation units.

In some companies, management has adopted the policy of having representatives of labor serve as members of the job-evaluation unit. If the job-evaluation unit is merely determining relative values, this is sound policy because labor representatives generally know the relative values of various jobs, and such knowledge is a wonderful asset to a job analyst trying to develop an internally consistent salary and wage structure.

CHAPTER XI

WAGE AND SALARY ADMINISTRATION—I

In any business concern, the rating of jobs is a never-ending task. In the normal course of events, the work assigned to individuals frequently varies considerably from month to month. Such variations tend to raise and lower job values. For this reason, unless a company maintains up-to-date records, salary and wage administration soon becomes a farce. To prevent this, all companies should establish a job-evaluation unit, whose primary functions should be

1. To evaluate jobs and to keep such evaluation on a current basis.
2. To prepare monthly salary and wage reports for management.
3. To prepare salary and wage reviews for department managers.

Depending on the size of the company, this could vary from a part-time job for one individual to a full-time job for an entire department.

Even if a company does not have a formal job-evaluation program, it still needs a unit to handle the functions listed above. Unless a company has such a unit, individual department managers will soon distort an internal arrangement by establishing unnecessary job classifications or by classifying positions to the wrong job classifications. Until a company centralizes such functions, it cannot obtain or maintain internal consistency.

In small companies where the number of employees are so few that an executive can become acquainted with everybody, it is possible for management to pass on the merits

of all proposed increases. This is an impossibility in a large company, where executives know but few of the employees working for the corporation, and any attempt by them to pass on proposed merit adjustments for various employees leaves them open to the suspicion they are playing favorites. Nothing lowers employee morale more quickly than a few well-founded rumors that there is discrimination within the company and that you have to be a friend of so-and-so if you want to get an increase in salary. For this reason, executives in large corporations should delegate the functional control of individual adjustments to subordinates. In large corporations, to be effective, salary and wage administration must be divided into two parts:

1. The control over the total amount of adjustments, which is a function of management.
2. The control over individual merit adjustments, which is a function of departmental supervisors.

Under this method of control, a job-evaluation unit would prepare monthly salary and wage control reports for management's consideration. And, whenever the percentage of actual to normal dropped to an undesirable figure, management would authorize a general review of salaries and wages. At that time, each department manager would be told the approximate amount of merit adjustments he should grant to employees under his jurisdiction. As long as the department manager stayed within the amount authorized by management and within the general policies prescribed by management, he would have complete freedom of action and his decision would be final.

Too many companies, not realizing that salary and wage administration has two unrelated functions, unfortunately attempt to combine the two. Some companies even go so far as to establish salary committees consisting of representatives from all major departments to pass on proposed merit increases. In large companies, these indi-

viduals know but few of the employees for whom increases have been proposed. The result generally is ridiculous because no group can intelligently pass on proposed adjustments when it does not know the employees concerned.

If a company feels that a salary committee is desirable, its functions should be limited to establishing general salary and wage policies, or to policing the salary and wage policies previously established.

The general salary and wage policies of all companies should be

1. Flexible enough to take care of all unusual situations.
2. Rigid enough to ensure internal consistency between departments.
3. Made known to all employees.

In Chap. IV the merit salary and wage range schedules were divided into three parts; *viz.*

1. A part for employees in training.
2. A part for average employees.
3. A part for outstanding employees.

Such a division aids materially when a company is attempting to establish general salary and wage policies. What policies a company should establish depends entirely on the size of the organization, the type of jobs, and the type of employees.

Possible salary and wage policies include

1. Adjustments below the merit-range minimum shall be considered probationary or training-period adjustments.
2. No employee shall be hired or transferred to any classification at a salary or wage below the training-period minimum for the job classification.
3. An employee starting at the training-period minimum shall not be eligible for probationary adjustment consideration until he or she has been on the job classification at least one month.
4. An employee starting at the training-period minimum must be raised to the merit-range minimum at the end of 6 months, or demoted or terminated.

5. No employee shall be eligible for merit-adjustment consideration until he or she has been on the job classification at least 3 months.

6. No employee shall be granted a merit adjustment in excess of 15 per cent of his salary or wage and, except in unusual circumstances, the adjustments will be in the following amounts only:

Salary	Amount	Wage	Amount
If employee's salary		If employee's wage	
Is less than $150 a month..	$10.00	Is less than $1 an hour....	$.05
$150 but less than $200...	15.00	$1 an hour or more.......	.10
$200 but less than $250...	20.00		
$250 but less than $300...	25.00		
$300 but less than $350...	30.00		
$350 but less than $400...	35.00		
$400 but less than $450...	40.00		
$450 and over...........	50.00		

7. No employee shall be granted a promotion adjustment in excess of 15 per cent of his salary or wage or the training period minimum for the new job classification, whichever is greater.

8. Above average employees shall be eligible for merit-adjustment consideration up to the special-merit maximum for their job classification.

9. Average employees shall be eligible for merit adjustment consideration up to the merit-range maximum for their job classification.

10. Below average employees shall not be eligible for merit-adjustment consideration.

Under salary and wage policies such as the one above, employees starting at the special training period minimum for their classification would be granted probationary adjustments at certain intervals during the training period. Normally, the training period would vary from 1 to 6 months, depending on the job classification.

Also, under salary and wage policies such as the one above, employees starting at the merit-range minimum, or above, would be eligible for merit-adjustment consideration periodically, subject to the limitation that the total merit adjustments for the department could not exceed the amount authorized by management. In addition, employees would be subject to the limitations of the policies themselves.

The administration of the policies numbers 8, 9, and 10 above entails maintaining up-to-date merit ratings on all employees subject to the program. This can be accomplished by asking department managers to grade all employees under their jurisdiction once each 6 months, in accordance with the following formula:

A—above company average (maximum each department 20 per cent).

B—company average (minimum each department 60 per cent).

C—below company average (maximum each department 20 per cent).

The merit-rating form for salary and wage administration purposes should be the simplest form possible and should be kept entirely separate from rating forms used for other purposes.

Some companies, unfortunately, combine the merit-rating form for granting salary and wage adjustments with the testing and training programs. Testing is designed primarily for determining whether it is possible to promote particular employees, or for determining what kind of training particular employees need before they can be promoted, or for selecting the best qualified applicant for a particular job. Salary and wage administration, on the other hand, is primarily concerned with determining the worth of an individual as of a given moment. Actually these two types of rating are so unrelated, that they should never be combined on one form. In fact, they should be handled by two different departments: one by

the salary and wage administration unit, and the other by the training department.

To administer the salary and wage policies established by management, each company should designate one individual (or a group of not more than three individuals) to act as salary and wage administrator. The primary function of this individual should be

1. To supervise the job-evaluation unit.
2. To analyze the various reports prepared by the job-evaluation unit and to pass the recommendations of this unit on to management with appropriate comments.
3. To supervise periodic salary and wage reviews.
4. To review all proposed adjustments, or lack of proposed adjustments in order to maintain internal consistency between departments. This function is primarily a policing function designed to prevent deviation from established salary and wage policies.
5. To review all proposed starting salaries and wages for new employees.
6. To review all proposed reclassifications.

As soon as a salary and wage administrator has been appointed, all merit adjustments should be granted at salary and wage review periods only. Such a policy simplifies salary and wage administration and leads to better internal consistency. On salary and wage reviews, a department manager looks over the records of all employees at the same time instead of just one or two at a time, as is the case when adjustments are processed individually.

By controlling the total amount a department manager can give, and making him grant it all at the same time, management forces department managers to analyze their individual problems and distribute adjustments where they will do the most good.

This method has another advantage in that certain employees who did not receive increases will resign after a review and go elsewhere. Since a sound salary and wage

administration policy anticipates and encourages turnover of personnel, a reasonable number of resignations after salary or wage reviews merely proves that the program is effective.

While it is practically impossible to fix a standard turnover rate for hourly employees because of variances between industries, experts generally agree that the annual turnover rate for office employees should vary from near zero in times of depression to around 30 per cent in times of prosperity. In normal times, all companies should anticipate and encourage an annual turnover in this class of employee from 10 to 20 per cent. If a company has less than 10 per cent, it tends to stagnate. If it has more than 20 per cent, inefficiency predominates, training costs go up, and the company soon finds that it has three employees doing the work formerly handled by two. If the turnover of salaried personnel rises above 30 per cent, even in prosperous times, something is basically wrong with the salary structure, and a company with that high a turnover should immediately analyze its whole salary program.

Generally, salary and wage reviews should not be made on any fixed dates but should be made whenever the percentage of actual to normal drops to an undesirable figure. It is not necessary to follow this rule 100 per cent, however, as companies using this method of control have successfully administered salaries and wages with fixed schedules, calling for a review every 3 or 4 months in times of prosperity and a review every 6 months in periods of depression.

The salary review form should be designed for the convenience of department managers and should contain space for the following:

1. Job classifications.
2. Employees' names (and organizational titles).
3. Employees' merit ratings (*i.e.*, *A*, *B*, or *C*).
4. Salary or wage ranges (minimum, normal, maximum).
5. Present salaries or wages.

6. Date of last adjustment.
7. Salary or wage adjustment recommended.
8. Effective date of salary or wage adjustment.

A typical example of a salary review form is shown in Fig. 2.

Under this method of operation, the job-evaluation unit would complete all the columns in Fig. 2 except the last two, where the department managers would insert their recommendations.

The salary and wage administrator reviewing this form would check primarily two things:

1. The relationship after adjustments of actual to normal, *i.e.*, from a budgetary angle.
2. The relationship of individual salaries to merit ratings and service dates, *i.e.*, from an internal consistency viewpoint.

A salary and wage administrator should only try to keep salaries and wages within limits he knows to be reasonable. A good way to accomplish this is to divide each salary and wage range into three parts such as shown below for job level 6 of the salary-range schedule of Table 11:

Maximum $185		$185—*A* Maximum
	A—Above average	
$175		$175—*B* Maximum
	B—Average	
$135		$135—*C* Maximum
	C—Below average	
Minimum $125		$125—Training Period Minimum.

and then question

1. All proposed increases for employees graded *C* in excess of the *C* maximum.
2. All proposed increases for employees graded *B* in excess of the *B* maximum.
3. Any other increase that seems out of line with proposed increases for others with similar merit ratings and service dates.

Job classifications Employee's name (organizational title)	Service date	Dept. manager's grade	Job salary range		Normal salary for job	Present salary	Date of last adjustment	Proposed increase	
			Min.	Max.				Amount	Effec. date
Junior clerks:									
Mary Smith	Oct. 1, 1944	B	$ 80	$120	$100	$ 80	Oct. 1, 1944	$10	Jan. 1, 1945
Jane Doe	May 1, 1944	A	....	....	100	100	July 1, 1944	10	Jan. 1, 1945
Dora Frank	Feb. 1, 1944	C	....	....	100	90			
Clerks:									
Betty Brown	Sept. 14, 1943	B	90	135	113	120	Oct. 1, 1944		
Margaret Jones	Jan. 16, 1944	A	....	....	113	125	Oct. 1, 1944		
Junior accountants:									
John Brown (accounts payable)	Aug. 1, 1942	B	160	240	200	220	July 1, 1944		
John Jones (accounts receivable)	Nov. 1, 1943	B	....	....	200	180	Oct. 1, 1944	20	Jan. 1, 1945
Mary Bryant (accounts payable)	Apr. 14, 1944	B	....	....	200	160	July 1, 1944	15	Jan. 1, 1945
Accountants:									
Oscar Zilch (general accountant)	Sept. 1, 1942	C	180	270	225	220	Jan. 1, 1944		
Accounting supervisor:									
Henry Brown (manager cost accounting)	Apr. 1, 1941	B	240	360	300	325	July 1, 1944		
Department: Accounting		Totals			1,651	1,620		55	

FIG. 2.—Salary review—January 1, 1945.

A salary and wage administrator should not approve or disapprove proposed adjustments. Instead, he should merely make sure that all proposed adjustments can be justified within reasonable limits. Whenever from the viewpoint of internal consistency he disagrees with a proposal, he should ask the department manager to withdraw or modify his request. Failing in this, he should pass the review to the controller or the salary and wage committee, or whoever has the final say, with an unfavorable recommendation. If on the other hand the salary and wage administrator feels that the proposed adjustments are in order, he should merely forward them on with a favorable recommendation. Except in unusual circumstances, if the proposed increases are within the budget, the approval of the controller or the salary and wage committee should be like that of a rubber stamp.

CHAPTER XII

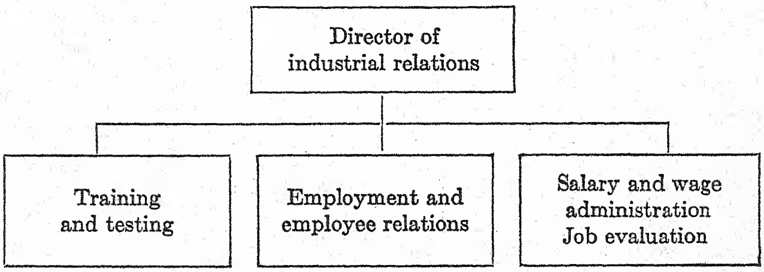
WAGE AND SALARY ADMINISTRATION—II

Almost as important as the reviewing of proposed merit adjustments is the reviewing of all starting salaries and wages for new employees and the reviewing of all proposed reclassifications. To handle such an assignment intelligently, a salary and wage administrator needs

1. Detailed job specifications—not descriptions—for each job classification within the organization.

2. A series of routine tests to give applicants and employees in order to determine whether or not they have the necessary qualifications for a particular job classification.

In most companies, it should be the responsibility of the job-evaluation unit to develop the job specifications and the responsibility of the training department to develop the series of tests. To coordinate these activities with the activities of the employment department, it is advisable to have the managers of all three of these departments report to the same individual. Organizationally, such a setup would be as follows:



The job-evaluation unit under such an arrangement would necessarily have to work very closely with both of

the other two departments in establishing the job specifications. If the job classifications, however, have been carefully set up, this should not be too difficult a task. To illustrate, the job specifications for a stenographer and a secretary might be as shown in Table 38.

TABLE 38

Job specification	Stenographer	Secretary
Education	High school plus	College or equivalent
Experience	6 months' general	3 years stenographic
Intelligence	IQ—95 or better	IQ—110 or better
Typing	60 words a minute	60 words a minute
Dictation	90 words a minute	90 words a minute
Spelling	85 per cent of test	95 per cent of test
Arithmetic	85 per cent of test	90 per cent of test
Appearance	Average	Above average
Tact and poise	Average	Above average

With detailed specifications for each classification such as shown in Table 38 for stenographers and secretaries, it should be fairly easy to determine whether a prospective applicant for a stenographic position should be classified as

Junior stenographer	\$ 80–\$120
Stenographer	100– 150
Junior secretary	125– 185
Secretary	140– 210

If the applicant meets the requirements for a stenographer, she should be hired as such, with a starting salary within the range of \$100 to \$150, which would put her on a par with stenographers within the company with the same experience and ability. If stenographers with 2 years' experience are earning \$125 a month, and the applicant who qualifies on all other counts has 2 years' experience, she should be offered \$125. The test in cases such as this is always, "If the applicant had started in this company 2 years ago instead of with the company she did, what would she be earning today?"

By the same analogy, tests can be given to employees

within an organization to determine which ones can be promoted. Such a program does not detract from the line responsibility of individual department managers in selecting the employee to be promoted. Instead, it eliminates those who are not ready for increased responsibility. If the employment manager and the salary and wage administrator are operating efficiently, they should have an up-to-date list of all employees eligible for promotion to each job classification. This list should be made available to department managers whenever there is a vacancy. If the department manager signifies that he is willing to take a particular employee who is on the eligibility list, then that employee should be given the first opportunity to accept the promotion. This should be irrespective of departments. In too many companies, department managers operate as though their departments were companies within themselves, and object to any attempt to promote competent employees out of their departments to more responsible positions. Such action is so shortsighted that top management should not permit it at all.

Frequently in business, department managers will look over a list of employees eligible for promotion to an open position and remark that they do not want any of them; they prefer to promote an employee not on the list who is doing good work in their own department. A wage and salary administrator should not object to this. Instead, he should merely request the department manager to send the prospective employee to the training department to take the usual tests to determine whether or not the employee can qualify for the position that is open. If the employee in question passes the tests and meets the other qualifications for the position, the salary and wage administrator should approve the promotion without question. If the employee fails hopelessly, the salary and wage administrator should refuse to approve the promotion and should so advise the department manager. If the employee qualifies except for one or two items that can be corrected by train-

ing, then the training unit should put the employee through an individual course or two covering the employee's deficiencies and should attempt to make the employee eligible. If, after completing such courses, the employee can then pass the necessary tests and otherwise qualify, he should be marked eligible for promotion.

In many companies, preemployment or prepromotion testing programs have failed solely because the companies did not have sound salary and wage programs. Testing has a real value in industry when a company has definite reasons for giving applicants or employees various tests. Unfortunately, very few companies are on a definite basis. As a result, their tests are too general and fail to accomplish what management hoped they would when the tests were first installed. If a company is to receive desired benefits from a testing and training program, it should postpone its installation until all other phases of salary and wage administration are on a sound basis. Unless a company has

1. Definite job levels, *i.e.*, uniform salary and wage schedules,
2. Standard general job classifications, and
3. Detailed job specifications for each job classification,

testing and training cannot help but be a waste of time, at least in the majority of cases.

On the other hand, if a company has detailed job specifications, it can develop a series of tests to determine whether prospective employees or applicants have the necessary qualifications. In addition, whenever the tests show individuals to be deficient in one or more of the necessary prerequisites for a particular job classification, the training department can give these individuals whatever training courses are necessary to overcome their deficiencies.

If a company has a program such as outlined above, a salary and wage administrator can perform a real service, not only in providing competent employees for vacant positions, but also in improving the performance of employ-

ees who are lacking in certain fundamental requirements. Whenever the tests given by the testing and training department disclose weaknesses on the part of certain employees, the training department should attempt to overcome these by individual coaching.

Another reason that the testing, training, and selection programs have bogged down in many companies is that the average company has too many job classifications. As was brought out in Chap. VII, in an illustration involving three separate companies, some companies have as many as one job title for every four office employees. This means that in order to have a 100 per cent selection coverage it would be necessary to establish a different testing and selection program for every fifth salaried employee in the organization. This is practically an impossibility in a large corporation. In most companies, the number of hourly and salaried job classifications combined should never exceed 100. If a company has more than 100, salary and wage administration cannot help being a constant problem. On the other hand, if a company has only a reasonable number of job classifications, a salary and wage administrator should have little or no trouble classifying applicants and determining their approximate value to the company.

In order to classify applicants properly, a representative of the salary and wage administration unit should review all applications for employment. This means that the salary and wage administration unit should interview all applicants immediately after the testing unit has completed the required tests, along lines similar to those shown in Fig. 3.

In the arrangement of Fig. 3 the two main functions of the salary and wage administration unit are

1. Determining the job classification or classifications for which an applicant can qualify.

2. Determining the approximate value to the company of each applicant.

In order to expedite the handling of employees under a program such as outlined in Fig. 3, a company needs a card similar to the one illustrated in Fig. 4.

The testing rating card of Fig. 4 should be attached to the application and made a permanent part of it.

The employment interviewer receiving a card such as shown in Fig. 4 for Mary Smith would check to see what

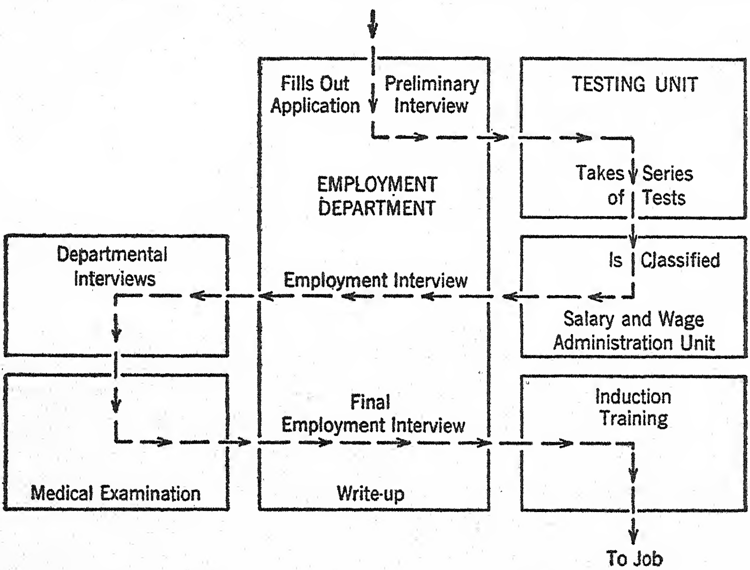


FIG. 3.—Route taken by applicant applying for a job in company *Y*.

organizational positions were open for (1) stenographers, (2) senior stenographers, (3) senior clerks—class *B*, and would arrange interviews for positions classified under one of these three job classifications only. In discussing the starting salary with Mary Smith, the interviewer and the department manager would know that the minimum salary

that could be offered Mary Smith would be $100 and the maximum $115. Such a program has two decided advantages. The employment department knows at the time of the regular interview (1) the various job classifications for

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Section A—To be filled in by Employment Department

Name: Mary Smith Applying for: Secretarial Position

Section B—To be filled in by Testing Unit

Typing tests:	65 words a minute—3 errors
Dictation:	95 words a minute
	Transcription accuracy 98%
Spelling:	97%
Arithmetic:	91%
Intelligence:	I.Q. 106
Temperament:	O.K. plus 2

Section C—To be filled in by Salary and Wage Administration Section

Job Classifications: (For which Mary Smith can be hired)	Starting Salary (For Mary Smith)
Stenographer	Minimum $100
Senior stenographer	Maximum $115
Senior clerk—class *B*	

Fig. 4.—Testing-rating card.

which an applicant is eligible, and (2) the approximate salary the applicant should be paid. This simplifies the employment problem considerably and permits a better selection of employees.

CHAPTER XIII

CONCLUSION

In the preceding chapters, the discussions and the illustrations have been concerned primarily with the four basic prerequisites or foundation stones of a salary and wage structure:

1. Salary and wage normals.
2. Salary and wage range schedules.
3. General job classifications.
4. Job-evaluation programs.

These four prerequisites are the ones needed above all others for the successful administration and control of salaries and wages. Social and business conditions, however, change rapidly. Although the above four are sufficient today, they will be inadequate tomorrow. Government and labor unions today are exploring the possibility of a guaranteed annual wage policy. Unless business anticipates this coming demand, it is going to find salary and wage administration, even under a sound program, a tremendous problem.

This raises the question as to what steps a company can take now to put its house in order. The answer is by creating a fifth foundation stone for its salary and wage structure: an annual bonus plan for distributing abnormal profits.

Before outlining such a program, it is perhaps well to review the over-all relationship that exists between management and labor. Many individuals picture management and labor as being on opposite sides of the table, with labor continually asking for more money and management constantly saying No. This viewpoint is wrong. Management and labor are both on the same side.

To illustrate, whenever a proposal for giving workers more money either directly or indirectly is more than offset by

1. Increased productivity of labor, or by
2. A reduction in employment, training, and related expenses, or by
3. A combination of 1 and 2,

then management and labor both should be in favor of it. On the other hand, if the projected cost is not more than offset or nearly so, then management and labor both should be against it.

In other words, unless there is a corresponding, increase in the productivity of labor there can be no justification for increasing real wages. In this respect, it should be noted that strikes, slowdowns, walkouts, interunion disputes, feather-bed practices, high absenteeism, excessive turnover, lack of job interest—all tend to increase costs. As such, they tend to lower the productivity of labor and to decrease both labor's return in terms of real wages and capital's return in terms of profits. It is for this reason that management and labor should be reviewing all proposals from a common viewpoint.

This raises the question as to what management can do in order to get labor to look at proposals through the eyes of management. The answer is that management must guarantee to labor a fair share of any and all "abnormal profits." Man is instinctively selfish. If he can see where he will benefit, he will work harder. If he can see no direct benefit to himself, it is difficult to keep his interest aroused. High hourly wage rates and high salaries cannot be maintained unless high productive efficiency is also maintained. This is so elementary that both management and labor admit it to be true. Yet time and again workers refuse to accept improvements in methods and try to restrict output. Why? The answer is simple. In too many companies

management has failed, heretofore, to pass on to the workers part of the benefits that the company received from laborsaving ideas.

Whenever labor, through its workers, deliberately restricts its output, it not only shows that it does not think much of a company's policies, but also shows that it has no confidence in the company or in its management.

The point frequently overlooked by economists is that capital, labor, and management are partners in a business enterprise. As such, each is entitled to a share of abnormal profits based on some predetermined formula. This can be accomplished by giving:

1. Capital—dividends plus extra dividends if there is an abnormal profit.
2. Management—salaries plus a bonus if there is an abnormal profit.
3. Labor—salaries and wages plus a bonus if there is an abnormal profit.

Many will argue that such an arrangement is unsound economically because labor takes no risk and, therefore, is not entitled to any additional return. Such an argument is not based on facts, because whenever labor accepts a job there is an element of risk involved. If capital is inadequate or if management is weak, labor cannot help but lose. Labor, therefore, is just as much entitled to shares of the abnormal profits as either of the other two partners.

To divide equitably excessive earnings among capital, top management, and labor is a big problem. Yet this is a problem that can be solved with very little effort. All that is necessary is a program similar to Table 39.

Under a program such as shown in Table 39 all employees of company *X* would receive a basic salary or wage and, in addition, whenever the company made an abnormal profit, an annual bonus.

The division of employees into the four general groups shown in Table 39 for company *X* is a division that has been

TABLE 39.—ANNUAL BONUS POLICIES—COMPANY X*

The net profits, after taxes and after an allowance for a 6 per cent cumulative return on the common stock and the earned surplus, shall be divided as follows:

1. Capital		44%
2. Management:		
a. Top management (employees earning $10,000 or more per year)	3%	
b. Salaried employees earning $4,000 but less than $10,000 a year	3%	6%
3. Labor:		
c. Salaried employees earning less than $4,000 a year	6%	
d. All hourly employees	44%	50%
Total		100%

* The percentages shown are typical for a large industrial organization only. By varying the percentage allocated to each group, however, the program could be applied to almost any business concern.

accepted by employees over a period of years. For this reason, it is possible to establish a different policy for each of these four groups and to allocate a greater portion of the annual bonus to one group than is allocated to the others. Within the four groups, however, if the annual-bonus program is to be 100 per cent successful, the annual bonus to each individual must bear the same percentage relationship to the total bonus allocated to the group as the individual's annual earnings bear to the total earnings of the group.

Many companies with annual bonus programs do not do this. They attempt to reward outstanding employees by giving them a greater proportion of the annual bonus allocated to their particular group, and other employees within the group resent it. To forestall this resentment, all companies should reward employees who make outstanding contributions through accepted channels only. The accepted channels are promotions to higher paying job classifications, adjustments upward in base pay, and special bonuses such as suggestion awards.

If a company has an annual bonus program, as long as the base rates are internally consistent the rates paid for

the various job classifications are to a great extent immaterial. A company operating under an annual bonus plan can establish a fair normal salary or wage or a normal base rate for each job classification and never have to change it: The annual bonus to employees automatically corrects maladjustments in base rates brought about by changing conditions.

In this respect, it should be noted that the majority of requests from unions have been for increases in base rates rather than for an annual bonus based on abnormal profits. Such requests by unions are fundamentally unsound. If there was a fair relationship between the various salary and wage rates before the union made its request for an increase, then management must answer No. In all companies, the basic salary and wage rates of the various classifications should be directly related to all other salary and wage rates within the organization. In other words, there should be an internally consistent salary and wage structure. Any increase in the base rate of pay for one classification or for one group of classifications disturbs this basic relationship. Unless there were inequalities or inequities before the changes were made, the new arrangement of rates cannot help but upset the whole organization. If the former relationship was one that employees believed to be fair, employees in all other groups will be dissatisfied until the old relationship is restored or until their groups receive proportionate increases. This can quickly become a vicious circle.

Unfortunately, in most instances in the past, management has found the pressure from organized labor too great. This means that management solved one problem but automatically created several others. From an economic viewpoint, it is a waste of time to be changing rates constantly on a piecemeal basis to meet changing conditions. This is one of the strongest arguments for an annual bonus program, because an annual bonus program handles cost of living and other changes automatically.

From a practical point of view, if business is to operate on a sound basis, established salary and wage programs cannot be subjected to periodic attacks from pressure groups. Once a company establishes a salary and wage structure, except to correct internal inequalities, the normals for the various job classifications should never be changed, unless all are changed proportionally through the medium of a general increase or decrease.

In addition, it should be remembered that a company can change its base rates merely by changing its job specifications. As was brought out above, any increase in the base rate of pay for one classification or for one group of classifications disturbs the basic relationships of the salary and wage structure. For this reason the job specifications established for job classifications should never be changed, except to correct internal inequalities, unless all are changed proportionally.

The freezing of the job specifications and the rate ranges for the various job classifications aids materially in maintaining internal consistency. At the same time, it permits flexibility of operation, provided that a company uses its ranges intelligently. To illustrate, company *X* on Jan. 1, 1940 set up detailed job specifications for the job classification of stenographer and placed it on a range from $100 to $150. At the time company *X* did this, it had a number of experienced stenographers on its rolls. During the period from January, 1940, to January, 1945, conditions changed rapidly and turnover increased. Consequently, company *X* was forced to accelerate adjustments in order to keep turnover within reasonable limits. As a result, the average length of service at the various steps of the salary range varied considerably during this 5-year period as shown in Table 40.

The comparisons in Table 40 bring out how it is possible to grant increases and accelerate adjustments without changing job specifications or salary ranges. In each of the three periods shown below, employees were competing

TABLE 40.—COMPARISON OF AVERAGE LENGTH OF SERVICE, STENOGRAPHERS COMPANY *X*

Salary steps	Jan. 1, 1940		Jan. 1, 1943		Jan. 1, 1945	
	Number of employees	Average length of service, months	Number of employees	Average length of service, months	Number of employees	Average length of service, months
100*	..	..	8	1	10	1
110	12	6	8	3	9	3
120	28	18	30	6	28	6
130	20	36	18	12	20	10
140	14	52	15	18	16	15
150	7	72	6	25	7	18
Total...........	81	31	85	10	90	9

* Training period minimum—used only when there are no qualified applicants.

against each other. The average employee with 18 months service on Jan. 1, 1940, was earning $120 as compared with $140 on Jan. 1, 1943, and $150 on Jan. 1, 1945. This means that stenographers with 18 months service were receiving $30 more a month on Jan. 1, 1945, than stenographers with similar service on Jan. 1, 1940. Yet the company had not changed its base rates, or lowered its job specifications, or raised salary averages.

During this 5-year period, company *X* by accelerating adjustments was able to maintain salary averages and keep turnover within reasonable limits. In addition, all employees who were classified as stenographers met the minimum requirements for the classification. By speeding up the granting of increases, company *X* attained the same result other companies obtained by granting a general increase. Company *X*, however, did not disturb its basic salary and wage structure.

Unfortunately, all companies do not follow a program such as is outlined above for company *X*. As a result, in periods of prosperity in many companies employees with more seniority than other employees frequently become

dissatisfied. This dissatisfaction causes pressure to be exerted on executives who approve general increases in base rates. Generally, such action is unnecessary and complicates salary and wage administration. In the majority of companies, general increases and decreases in base rates should be avoided, since they invariably force a company to establish a new salary and wage structure. Because it takes years to create an internally consistent structure, the cost to a company that makes a general increase or decrease is tremendous. If possible, all general adjustments to employees, both upward and downward, should be made through the medium of an annual bonus based on abnormal profits.

If it is impossible to avoid a general increase or decrease, then such a change should be made by changing the conversion table. It never should be made by raising or lowering employees' salaries by a fixed amount or percentage. Otherwise it will disturb the basic relationship of the salary and wage structure. Changing the method of conversion accomplishes the same result and still permits a company to maintain its internal consistency. To illustrate, company *A* on July 1, 1942, decided that its basic salary ranges were too far below the market averages and that a general increase was necessary. To bring its ranges in line, it changed its conversion basis as shown in Table 41.

TABLE 41

Job level	Salary range	Basis of conversion, points	
		June 30, 1942	July 1, 1942
1	$ 70–$105	Less than 80	Less than 70
2	80– 120	80– 89	70– 79
3	90– 135	90– 99	80– 89
4	100– 150	100–109	90– 99
5	110– 165	110–124	100–109
Etc.	. . . .	. . . .	. . . .

As soon as the new conversion table had been approved, the job analysts reviewed the point ratings awarded to all individual positions and reclassified them to job classifications on the new basis. When this was completed, a salary review form was prepared for each department, budgets were established, and increases were granted based on the relationship of actual salaries to the new normals. Although this method of granting a general increase created a number of problems for the job-evaluation unit, it allowed company *A* to retain the majority of its job classifications. With these as a basis, company *A* was able within a few months to establish again an internally consistent structure. This is practically an impossibility when a company grants fixed amount or fixed percentage increases. Then too many job-classification titles and specifications have to be abandoned. When this happens, job analysts generally find it easier to start over and establish new salary schedules and new job classifications.

If management in all companies had a long-range viewpoint, employees could stop worrying about wages and salaries and concentrate on increasing their productivity. In some of the more progressive companies today, this is exactly what is happening. A sound salary and wage administration program, plus an annual bonus based on abnormal profits, makes annual wage negotiations unnecessary. In such companies the union, if there is one, in conjunction with management, devotes its activities to the elimination of inequalities, to improving working conditions, to developing recreational programs, and to increasing the efficiency of the individual workers.

In addition, in these companies there is a company loyalty and a job interest usually missing in large corporations. Employees striving for an annual bonus based on abnormal profits gradually come to feel they are part of the organization—a member of the team.

In companies where there is no annual bonus program, the attitude of conscientious employees toward employees

who loaf is generally one of indifference. This is not true in companies under an annual bonus program based on abnormal profits. There the attitude is one of resentment. The better workers quickly let the others know that they expect them to do their share. As a result the loafers soon start working or quit because they are out of harmony with the rest of the group. Cooperation such as this from the workers pays big dividends in increased efficiency.

If more companies would establish a sound salary and wage structure and adopt an annual bonus program for distributing abnormal profits, there would be fewer business failures, fewer problems for executives, and a better distribution of salaries and wages.

INDEX